



# The Annual

McDonald's Corporation 1996 Annual Report

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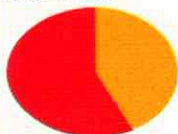
## COMPANY REPORTS COLLECTION

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## Geographic comparisons-

### Restaurants



1996: 21,022



1991: 12,418

### Systemwide sales in billions



1996: \$31.8



1991: \$19.9

### Operating income\* in billions

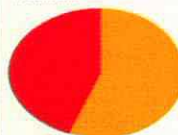


1996: \$2.6



1991: \$1.7

### Assets\*\* in billions



1996: \$17.4



1991: \$11.3

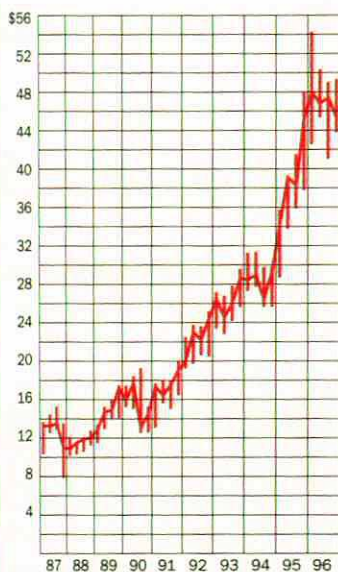
● U.S.  
● Outside the U.S.

\* Graph excludes Corporate G&A expense of \$52 and \$27 million in 1996 and 1991, respectively.

\*\* Graph excludes Corporate assets of \$272 and \$233 million in 1996 and 1991, respectively.

## Market price per common share

in dollars



— Quarterly stock price range  
— Price at quarter end

## Compound annual growth rates

for the 10-year period ended  
December 31, 1996

Systemwide sales	9.9%
U.S.	5.6
Outside the U.S.	18.2
Total revenues	9.9
Operating income	10.4
U.S.	3.5
Outside the U.S.	23.3
Net income	12.6
Net income per common share	13.6
Cash provided by operations	11.2
Total assets	11.3
Total shareholders' equity	13.3
Total return to investors on common stock	17.2

## Compound annual total percent return to investors

for the 10-year period ended  
December 31, 1996

McDonald's Common Stock	17.2
Dow Jones Industrial Average	16.5
Standard & Poor's 500	15.3
Wilshire 5000	14.7
Lehman Brothers Government/ Corporate Bond Index	8.4
Lipper Money Market Fund Index	5.6



## Dear fellow shareholder:

McDonald's achieved several significant milestones in 1996. Systemwide sales exceeded \$30 billion for the first time, and net income crossed the \$1.5 billion threshold. We introduced the Deluxe Line of sandwiches in the U.S., and celebrated our 100th country opening, as well as our 25th anniversaries in six markets outside the U.S.

Overall, 1996 was another record year for McDonald's.

In the U.S., we are operating in a complex, dynamic and difficult marketplace, and last year's performance was not up to our exacting standards. We view our challenges as opportunities and are taking steps to reach our full potential. We expect 1997 to be a year of transition for our U.S. business and expect results to improve as the year progresses and into 1998. We plan to add fewer restaurants than in 1996 and to focus on building sales at existing restaurants. We will emphasize aggressive marketing; a national value initiative; food taste, both in our restaurants and in our advertising; and fast, accurate, friendly service, particularly in the drive-thru where we already have a competitive advantage. We are extremely optimistic about our long-term opportunities to continue to grow profitably in the U.S.

Outside the U.S., McDonald's business was particularly exciting last year. In addition to opening in our 100th and 101st countries, we increased expansion by nearly 50 percent. Our operating performance was strong, especially in light of weak economies in several major markets, weaker foreign currencies, and difficult comparisons to the exceptional performance in many markets in 1995.

But perhaps the greatest excitement is yet to come. We are poised to have an excellent year internationally in 1997. We are committed to increasing market share through expansion and comparable sales growth, and to increasing profits by lowering average operating and



Pictured left to right are Jim Cantalupo, Jack Greenberg, Ed Rensi and Mike Quinlan.

development costs. More than 70 percent of the 2,400 to 2,800 restaurants we plan to add this year will be located outside the U.S. We are strengthening our solid market positions in well-established countries and expanding our base in newer markets.

We are driving our worldwide growth with our well-established strategies of Convenience, Value and Execution. The engine behind those strategies

continues to be Brand McDonald's, a symbol of recognition, acceptance and respect around the world.

We celebrate Brand McDonald's in this issue of *The Annual* because of the distinct competitive advantage it provides in all aspects of our business. Leveraging that strength is key to our success in the future—our brand supports our strategies, and our strategies support our brand.

Together, the McDonald's System will capitalize on the unique strength of our brand, while nurturing it with daily care as we move toward our vision of dominating the global foodservice industry. We remain confident that as Brand McDonald's continues to grow in both strength and scope, so will the value of your investment in McDonald's.

Michael R. Quinlan  
Chairman and  
Chief Executive Officer,  
Shareholder

James R. Cantalupo  
President and Chief  
Executive Officer—International,  
Shareholder

Jack M. Greenberg  
Vice Chairman,  
Chairman—U.S.A.,  
Shareholder

Edward H. Rensi  
President and Chief  
Executive Officer—U.S.A.,  
Shareholder

March 3, 1997

## Performance at a glance

**McDonald's is the largest and best-known global food-service retailer, with more than 21,000 restaurants in 101 countries. Still, our global market potential is enormous.**



On any day, even as the market leader, McDonald's serves less than one percent of the world's population. Our outstanding brand recognition, experienced management, high-quality food, site development expertise, advanced operational systems and unique global infrastructure position us to capitalize on global opportunities. We plan to expand our leadership position through convenience, superior value and excellent operations. Our efforts to increase market share, profitability and customer satisfaction have produced high returns to shareholders—a compound average of 17 percent per year over the past 10 years.

<b>11-year summary</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>	<b>1992</b>	<b>1991</b>	<b>1990</b>	<b>1989</b>	<b>1988</b>	<b>1987</b>	<b>1986</b>
<i>(Dollars rounded to millions, except per common share data and average restaurant sales)</i>											
Systemwide sales	<b>\$31,812</b>	29,914	25,987	23,587	21,885	19,928	18,759	17,333	16,064	14,330	12,432
U.S.	<b>\$16,370</b>	15,905	14,941	14,186	13,243	12,519	12,252	12,012	11,380	10,576	9,534
Outside the U.S.	<b>\$15,442</b>	14,009	11,046	9,401	8,642	7,409	6,507	5,321	4,684	3,754	2,898
Systemwide sales by type											
Operated by franchisees	<b>\$19,969</b>	19,123	17,146	15,756	14,474	12,959	12,017	11,219	10,424	9,452	8,422
Operated by the Company	<b>\$ 7,571</b>	6,863	5,793	5,157	5,103	4,908	5,019	4,601	4,196	3,667	3,106
Operated by affiliates	<b>\$ 4,272</b>	3,928	3,048	2,674	2,308	2,061	1,723	1,513	1,444	1,211	904
Average sales by Systemwide restaurants <i>(in thousands)</i>	<b>\$ 1,708</b>	1,844	1,800	1,768	1,733	1,658	1,649	1,621	1,596	1,502	1,369
Total revenues	<b>\$10,687</b>	9,795	8,321	7,408	7,133	6,695	6,640	6,066	5,521	4,853	4,143
Revenues from franchised and affiliated restaurants	<b>\$ 3,116</b>	2,931	2,528	2,251	2,031	1,787	1,621	1,465	1,325	1,186	1,037
Operating income	<b>\$ 2,633</b>	2,601	2,241	1,984	1,862	1,679	1,596	1,438	1,288	1,160	983
Income before provision for income taxes	<b>\$ 2,251</b>	2,169	1,887	1,676	1,448	1,299	1,246	1,157	1,046	959	848
Net income	<b>\$ 1,573</b>	1,427	1,224	1,083	959	860	802	727	646	549*	480
Cash provided by operations	<b>\$ 2,461</b>	2,296	1,926	1,680	1,426	1,423	1,301	1,246	1,177	1,051	852
Capital expenditures	<b>\$ 2,375</b>	2,064	1,539	1,317	1,087	1,129	1,571	1,555	1,321	1,027	942
Treasury stock purchases	<b>\$ 605</b>	321	500	628	92	117	157	497	136	143	209
Financial position at year end											
Net property and equipment	<b>\$14,352</b>	12,811	11,328	10,081	9,597	9,559	9,047	7,758	6,800	5,820	4,878
Total assets	<b>\$17,386</b>	15,415	13,592	12,035	11,681	11,349	10,668	9,175	8,159	6,982	5,969
Total debt	<b>\$ 5,523</b>	4,836	4,351	3,713	3,857	4,615	4,792	4,036	3,269	2,784	2,321
Total shareholders' equity	<b>\$ 8,718</b>	7,861	6,885	6,274	5,892	4,835	4,182	3,550	3,413	2,917	2,506
Per common share											
Net income	<b>\$ 2.21</b>	1.97	1.68	1.45	1.30	1.17	1.10	.97	.86	.72*	.62
Dividends declared	<b>\$ .29</b>	.26	.23	.21	.20	.18	.17	.15	.14	.12	.11
Market price at year end	<b>\$ 45<sup>3</sup>/<sub>8</sub></b>	45 <sup>1</sup> / <sub>8</sub>	29 <sup>1</sup> / <sub>4</sub>	28 <sup>1</sup> / <sub>2</sub>	24 <sup>3</sup> / <sub>8</sub>	19	14 <sup>1</sup> / <sub>2</sub>	17 <sup>1</sup> / <sub>4</sub>	12	11	10 <sup>1</sup> / <sub>8</sub>
Systemwide restaurants at year end	<b>21,022</b>	18,380	15,950	14,163	13,093	12,418	11,803	11,162	10,513	9,911	9,410
U.S.	<b>12,094</b>	11,368	10,238	9,397	8,959	8,764	8,576	8,270	7,907	7,567	7,272
Outside the U.S.	<b>8,928</b>	7,012	5,712	4,766	4,134	3,654	3,227	2,892	2,606	2,344	2,138
Systemwide restaurants by type											
Operated by franchisees	<b>13,428</b>	12,217	10,965	9,933	9,237	8,735	8,131	7,573	7,110	6,760	6,406
Operated by the Company	<b>4,357</b>	3,816	3,238	2,746	2,551	2,547	2,643	2,691	2,600	2,399	2,301
Operated by affiliates	<b>3,237</b>	2,347	1,747	1,484	1,305	1,136	1,029	898	803	752	703
Number of countries at year end	<b>101</b>	89	79	70	65	59	53	51	50	47	46

\*Before the cumulative prior years' benefit from the change in accounting for income taxes.



## Systemwide restaurants

at year end	1996	1991
<b>U.S.</b>	<b>12,094</b>	<b>8,764</b>
<b>Outside the U.S.</b>	<b>8,928</b>	<b>3,654</b>
<b>Systemwide</b>	<b>21,022</b>	<b>12,418</b>
<b>Countries</b>	<b>101</b>	<b>59</b>

	1996	1991
<b>United States</b>	<b>12,094</b>	<b>8,764</b>



	1996	1991
<b>Europe/Africa/Middle East/India</b>	<b>3,469</b>	<b>1,342</b>



Andorra	2	1
Austria	85	30
Bahrain	3	0
Belarus	3	0
Belgium	58	12
Bulgaria	5	0
Croatia	4	0
Czech Republic	33	0
Denmark	70	16
Egypt	17	0
England	650	400
Estonia	4	0
Finland	69	9
France	540	193
Germany	743	391
Greece	30	1
Hungary	51	9
Iceland	2	0
India	3	0
Ireland	28	14
Israel	36	0
Italy	147	14
Jersey	1	0
Jordan	2	0
Kuwait	9	0
Latvia	5	0
Liechtenstein	1	0
Lithuania	4	0
Luxembourg	4	2
Malta	5	0
Monaco	1	0
Morocco	4	0
Netherlands	151	69
Northern Ireland	10	1
Norway	33	8
Oman	2	0
Poland	65	0
Portugal	33	2
Qatar	1	0
Romania	13	0
Russia	12	1
Saudi Arabia	24	0
Scotland	46	21
Slovakia	4	0
Slovenia	8	0
South Africa	17	0
Spain	121	42
Sweden	129	56
Switzerland	75	25
Turkey	61	11
United Arab Emirates	7	0
Wales	31	9
Yugoslavia	7	5

	1996	1991
<b>Canada</b>	<b>992</b>	<b>642</b>



	1996	1991
<b>Asia/Pacific</b>	<b>3,630</b>	<b>1,458</b>



Australia	608	304
Brunei	1	0
China	117	1
Fiji	1	0
Guam	6	4
Hong Kong	125	58
Indonesia	59	1
Japan	2,004	865
Macau	7	2
Malaysia	80	25
New Caledonia	1	0
New Zealand	120	53
Philippines	113	38
Saipan	2	0
Singapore	92	37
South Korea	77	8
Tahiti	1	0
Taiwan	163	54
Thailand	52	8
Western Samoa	1	0

	1996	1991
<b>Latin America</b>	<b>837</b>	<b>212</b>

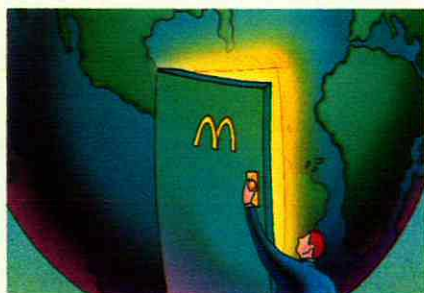


Argentina	100	10
Aruba	2	1
Bahamas	4	4
Bermuda*	0	1
Brazil	337	84
Chile	25	1
Colombia	15	0
Costa Rica	16	7
Cuba*	1	1
Curacao	4	3
Dominican Republic	1	0
El Salvador	5	3
Guadeloupe	3	0
Guatemala	19	5
Honduras	4	0
Jamaica	4	0
Martinique	4	1
Mexico	112	35
Panama	18	10
Paraguay	1	0
Peru	2	0
Puerto Rico	95	36
St. Maarten	1	0
Trinidad	3	0
Uruguay	16	1
Venezuela	39	6
Virgin Islands	6	3

\*U.S. Navy Base

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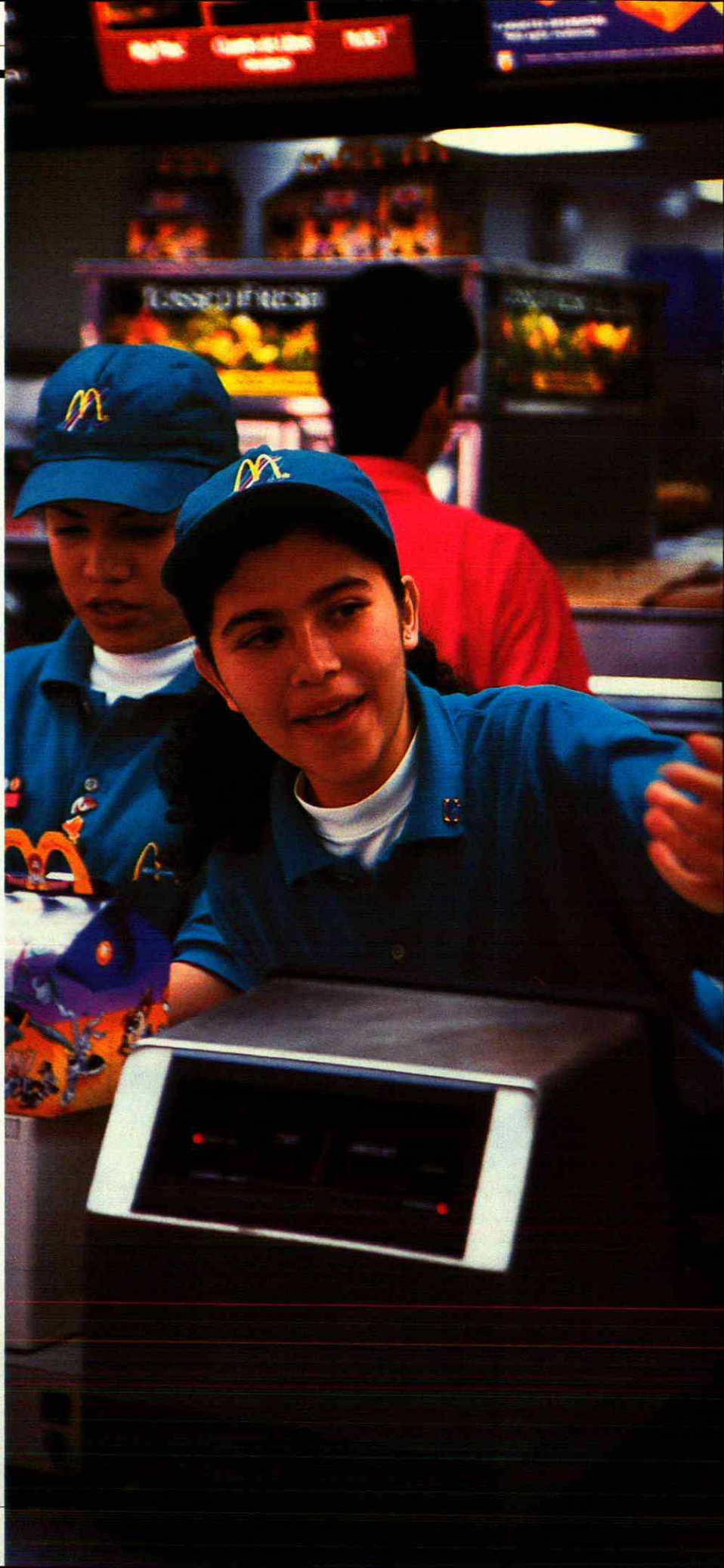


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> WELCOME TO McDONALD'S. The 35 million customers who visit our restaurants every day are greeted by more than a million smiling faces. They belong to the members of the crew and management teams who bring the McDonald's brand to life in more than 100 countries around the world, just like at this restaurant in Caracas, Venezuela.





# The Annual

McDonald's Corporation 1996 Annual Report

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**FORWARD-LOOKING STATEMENTS.** Certain forward-looking statements are included in this annual report. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations and involve a number of risks and uncertainties. Actual results could differ materially due to changes in: global and local business and economic conditions; legislation and governmental regulation; competition; success of operating initiatives and advertising and promotional efforts; food, labor and other operating costs; availability and cost of land and construction; adoption of new or changes in accounting policies and practices; consumer preferences, spending patterns and demographic trends; political or economic instability in local markets; and currency exchange rates.

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The people's chef  
"When I talk about the new  
dimension of flavor and taste  
we're giving our grown-up  
customers...I'm in the zone."  
Chef Andrew Selvaggio

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Being the world's greatest brand fuels our growth. Discover the true power of our brand advantages.



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**BOARD OF DIRECTORS**

Hall Adams, Jr.  
*Retired CEO, Leo Burnett & Co., Inc.*

Gordon Gray  
*Chairman and CEO, Rio Algom Limited*

Enrique Hernandez, Jr.  
*President and CEO, Inter-Con Security Systems, Inc.*

Donald Keough  
*Chairman, Allen & Company Incorporated*

Donald Lubin  
*Partner, Sonnenschein Nath & Rosenthal*

Andrew McKenna  
*Chairman and CEO, Schwarz Paper Company*

Terry Savage  
*Financial Journalist, Author, and President of Terry Savage Productions, Ltd.*

Ballard Smith  
*Retired*

Roger Stone  
*Chairman, President and CEO, Stone Container Corporation*

Robert Thurston  
*Business Consultant*

Blair Vedder, Jr.  
*Retired COO, Needham Harper Worldwide, Inc.*

Robert Beavers, Jr.

James Cantalupo

Jack Greenberg  
*Vice Chairman*

Michael Quinlan  
*Chairman*

Edward Rensi

Paul Schrage

Fred Turner  
*Senior Chairman*

June Martino  
*Honorary Director*

**ADVISORY DIRECTORS**

*(Appointed by the Board for a one-year term to serve in a nonvoting capacity)*

Claire Babrowski  
Henry Gonzalez  
Carleton Pearl  
Marvin Whaley

**TOP MANAGEMENT TEAM**

James Cantalupo  
*President and CEO—International*

Jack Greenberg  
*Vice Chairman, Chairman—U.S.A.*

Michael Quinlan  
*Chairman and CEO*

Edward Rensi  
*President and CEO—U.S.A.*

Paul Schrage  
*Senior Executive Vice President, Chief Marketing Officer*

Fred Turner  
*Senior Chairman*

**Executive**

**Vice Presidents**

Winston Christiansen  
Michael Conley  
Thomas Dentice  
Robert Doran  
Patrick Flynn  
Thomas Glasgow, Jr.  
James Skinner (2)  
Shelby Yastrow

**Senior Vice Presidents**

Thomas Albrecht  
Brad Ball  
Robert Beavers, Jr.  
Joseph Beckwith  
John Charlesworth (2)  
Burton Cohen  
Carl Dill, Jr.  
Alan Feldman (1)  
Henry Gonzalez, Jr. (1)  
David Green  
Robbin Hedges (2)  
William Hockett  
Noel Kaplan (1)  
Jeffrey Kindler  
Debra Koenig (1)  
Raymond Mines, Jr. (1)  
Carleton Pearl  
Paul Preston (2)  
Lynal Root  
Eduardo Sanchez (2)  
Robert Sanders (1)  
Richard Starman  
Stanley Stein  
Delbert Wilson, Jr. (1)

**Corporate**

**Vice Presidents**

Claire Babrowski  
Michael Roberts (1)  
Bill Rose (2)  
Robert Weissmueller  
Marvin Whaley (2)

**VICE PRESIDENTS**

John Anderson  
Dean Barrett  
Roy Bergold, Jr.  
Monica Boyles  
Stephen Brown  
Larry Chandler  
Patricia Crull  
Jack Daly  
Ralph Decker  
Donald Dempsey  
Lowell Dixon  
Carter Drew  
Timothy Fenton  
Sophia Galassi  
Michael Goldblatt  
John Hall  
Payson Harrington  
Terence Haynes  
James Johannesen  
Robin Johnson  
Bonnie Kos  
James Kramer  
William Lamar  
Jerry Lane  
Jerry Langley  
Roger Lexell  
James Listak  
Gary Masden  
Ronald Miessler  
Frank Muschetto  
Matthew Paull  
Christopher Pieszko  
Jose Ramon Quijano  
James Rand  
Michael Richard  
Gloria Santana  
Marc Simon  
Stephen Simpson  
Russell Smyth  
Eugene Stachowiak  
Susan Steele  
Joseph Thomas  
Sharon Vainovich  
Michael Walsh  
Susan Warzecka  
John Whipple

**ASSISTANT**

**VICE PRESIDENTS**

Dae Abram  
Kenneth Barun  
Julia Becker  
Gerald Calabrese  
Terri Capatosto  
Harry Coaxum  
Christine Cole  
Michele Collins  
Donald Crosby  
Michael Donahue  
Charles Ebeling  
Michael Gordon  
Kenneth Hadland  
William Hallett  
Arnold Hansmann  
Mary Healy  
Richard Helfand  
Joseph Hill  
Melvin Hopson  
Thomas Kettle  
James Lynn  
Fred Matthias  
Mary Miller  
Joseph Norton  
Daniel Pellettiere  
David Pojman  
Vivian Ross  
Paul Schaffhausen  
Charles Scott  
Herbert Williams  
Wayne Wolf  
Gene Wong  
Richard Wubbel

**U.S. REGIONAL**

**MANAGERS**

Don Allio  
Raul Alvarez  
Michael Andres  
John Betts  
Lynn Crump  
James Daughtry  
Larry DeVries  
Patrick Donahue  
Kevin Dunn  
James Duval  
Paul Facella  
Janice Fields  
James Flaum  
Douglas Goare  
John Gaul  
Philip Gray  
David Hamilton  
Gail Hammack  
Michael Harden  
John Horwitz  
John Lambrechts  
Ronald Lessnau  
William Lowery  
Ted Lyon  
Catherine Martin  
Robert Melberth  
Louie Mele  
David Murphy  
David Natysin  
Kevin Reddy  
Roberto Rodriguez  
Bernard Schaefer, Jr.  
Jeffrey Schwartz  
Willis Smart  
Charles Strong  
Sandra Thomas  
Michael Thompson  
Ronald Vice  
Stephen Zdunek  
Larry Zimmerman

**OUTSIDE THE U.S.**

**Argentina**

Woods Staton (3)

**Australia**

Robert Beard  
Charles Bell (4)  
Deanne Bevan  
John Blyth  
Gerrie Boeyen  
Anatolij Cork  
Raymond Frawley  
Stuart Giddy  
Sidney Guinane  
Andrew Hipsley  
Stephen Jermyn  
Robert Johnstone  
Tony McMaster  
Nicola Milne  
Nicholas Nichles  
Julie Owen  
Peter Ritchie, Chmn. (2)  
Peter Rodwell  
Guy Russo

**Austria**

Andreas Hacker (4)

**Belarus**

Karen Bishop (4)

**Belgium**

Benoit Gilain (4)

**Brazil**

Gerson Ferrari  
Marcel Fleischmann  
Greg Ryan (4)

**Bulgaria**

Branislav Knezevic (4)

**Canada**

Peter Beresford  
Donald Carr  
Ronald Cohen (4)  
George Cohon, Sr. Chmn.  
John Davis  
Mary Anne Drummond  
Roy Ellis  
Kenneth Fong  
Edgar Garber  
John Hadfield  
Robert Hissink  
William Johnson  
Sam Joseph  
Redmond Langan  
Ron Knight  
Ronald Marcoux  
Lawrence McCormick  
George Mencke  
Marc Ouellette  
Jack Pettitt  
Gary Reinblatt  
Kim Scrimgeour  
Marc Winer

**Central Europe**

**Development Co.**

Andreas Hacker (4)  
Helmut Hecher  
Branimir Lalic  
Tim Taylor  
Tim Tighe

**Chile**

Jose Amario (4)

**China Development Co.**

James Chu  
Robert Ma  
Marvin Whaley (4)

**Colombia**

Pedro Medina (3)

**Croatia**

Paul Connan (4)

**Czech Republic**

Martin Dlouhy (4)

**Denmark**

Chris Ansell (4)

**Egypt**

Yasseen Mansour (3)

**Estonia, Latvia,**

**Lithuania**

Kevin Murphy (4)

**European**

**Development Co.**

Per Fjeldahl  
Kathy Henry

**Finland**

Kim Hanslin (4)

**France**

Michel Antolinos, CEO  
Denis Hennequin (4)  
Philippe Labbe  
Jean-Pierre Petit

**Germany**

Michael Gerling  
Hans Griebler  
Adrian Hendrix  
Bernd Keller  
Rolf Kreiner  
Herman Lades  
Josef Paxian  
Gerd Raupeter (4)  
Eva-Marie Sachse

**Greece**

Predrag Dostanic (4)

**Honduras**

Ana Christina Aguilar  
de Galeano (3)

**Hong Kong**

Donald Dempsey (4)  
James Ip  
Jane Lau  
Micky Leung  
Bing Zeat Mah

**Hungary**

Endre Fazekas (4)

**India**

Vikram Bakshi (3)  
Amit Jatia (3)  
Ragvinder Rekhi

**Indonesia**

Bambang Rachmadi (3)

**Italy**

Mario Resca (4)  
Alain Sebah

**Jamaica**

Patricia Isaacs (4)

**Japan**

Kazuo Aoki  
Akihiko Arai  
John Asahara  
Tsutomu Fujiki  
Den Fujita (3)  
Tsunayasu Goshi  
Tadashi Ishida  
Yasuaki Ishii  
Haruo Ito  
Yutaka Kobayashi  
Kazunori Kondo  
Hajime Saiga  
Akira Tanaka  
Yasuo Utsunomiya  
Yosuyuki Yagi  
Seiya Yoshihiro

**Malaysia**

Mohamed Shah (3)

**Mexico**

Enrique DeAlba (3)  
Juan Carlos Fernandez (3)  
William Johnson (4)

**Middle East**

**Development Co.**

Timothy Fenton (4)

**Netherlands**

Michiel Hiemstra  
Rene Savelsberg (4)  
Paul Van der Stoel  
Eddy Vermeir

**New Zealand**

Alan Dunn (4)  
Chris Fraser  
Jenny Gilbert  
Jozef Zazulak

**Norway**

Theo Holm (4)

**Paraguay**

Miguel Brunotte (3)

**Peru**

Roberto Lukac (3)

**Philippines**

Tom Trola (4)  
George Yang (3)

**Poland**

Waldemar Nuvall (4)

**Portugal**

Jennie Scroggs Ienzer (4)

**Puerto Rico**

Jose Ramon Quijano (4)

**Romania**

Paul Booth (4)

**Russia**

Glen Steeves (4)  
Marc Winer

**Singapore**

Robert Kwan (3)

**Slovakia**

Philippe Echenard (4)

**Slovenia**

Grant Copper (4)

**South Africa**

Carter Drew (4)

**South Korea**

H.S. Kim (3)  
Steve Shin (3)

**Spain**

Philippe Walch (4)

**Sweden**

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Zelena Mistic (3)

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(3) Joint-Venture Partner  
(4) Managing Director/Country Manager

**AHORA PADRES E HIJOS PODRAN  
PASARLA EN GRANDE EN McDONALD'S**



**¡ESTA DE LUJO!**



*Llegó la Arch Deluxe™, una hamburguesa de lujo hecha para darle gusto a los grandes.*

# The Annual

EDITOR-IN-CHIEF Michael Conley

MANAGING EDITOR Mary Healy

ASSISTANT MANAGING EDITORS

Jack Daly, Patricia Paul, Charles Rubner,  
Mary Kay Shaw, Barbara Ven Horst

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Investor news 1-630-623-6543

Nutrition information 1-630-623-FOOD

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Individual investors 1-630-623-7428

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## REGISTRAR; STOCK TRANSFER, DIVIDEND DISBURSING AND REINVESTMENT AGENT

McDonald's Shareholder Services

First Chicago Trust Company

P.O. Box 2591

Jersey City, NJ 07303-2591

(See INQUIRIES for telephone numbers)

## ANNUAL SHAREHOLDERS' MEETING

May 22, 1997, 2:30-4:00 PM (CDST)

McDonald's Office Campus

Oak Brook, IL

## HOME OFFICE

McDonald's Corporation

McDonald's Plaza

Oak Brook, IL 60521

1-630-623-3000

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<http://www.mcdonalds.com>

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Grown-Up Taste; Happy Meal; Have You Had Your Break  
Today?; Lifting Kids To A Better Tomorrow; Maharaja Mac;  
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## WE GET LETTERS

### DEAR McDONALD'S:

I travel from Etobicoke to Waterloo  
three days per week. The only thing that  
keeps me going in the morning, through  
weather which is mostly foul, and having  
to fend off angry motorists is the knowl-  
edge that I can stop at McDonald's for a  
cup of coffee in order to revive my senses.  
I always try to be served by Sandy, for  
not only do I get a cup of coffee, I get my  
second smile (the first from my wife), a  
cheery "hello," and a good wish for my  
health. A great way to start one's day.

Michael Hogan

Waterloo, Ontario, Canada

### DEAR McDONALD'S:

On October 14 last, I visited your  
restaurant in Tralee, Ireland. I left my  
purse with my passport and \$200 in the  
restroom. I did not discover it was missing  
until we arrived at our bed and breakfast  
in County Clare about 9 p.m. When I  
called the restaurant, Victor, the manager,  
already had my purse. A very nice fellow,  
Finnbar, volunteered to deliver it yet that  
evening. Victor phoned to make sure I  
received it. And of course, all of my  
belongings were intact. You should know  
of your employees' willingness to go out  
of their way to help a stranger.  
McDonald's should be proud of them all!

Renee Steele

Eckton, Maryland

### DEAR McDONALD'S:

I like your Arch Deluxe. It is good. Am  
I going to get arrested for eating them  
because I am a kid? I am 11 years old.  
Please let me know so I don't have to hide  
under the table to eat.

Carrie Schenking

Englewood, Ohio

### DEAR McDONALD'S:

Thank you for your tremendous contri-  
butions to improve the lives of children  
through your support of Ronald McDonald  
House Charities. I learned of your work  
when I was researching the resources that  
are available to children in need. As editor  
of a newspaper, I see a lot in the world  
that is wrong. It is rare, and thus extremely  
gratifying, to see a huge corporation, its  
employees and its franchisees use their  
talents and resources to make the world  
a better place to live.

Kathleen McCarthy  
Bettendorf, Iowa

### DEAR McDONALD'S:

You may find this hard to believe, but  
yesterday I had my first taste of "fast  
food" at the tender age of 75. Sunday's  
newspaper included a coupon for an Arch  
Deluxe hamburger. I had two. Delicious!  
And I'm going back for dinner tonight. By  
the way, my dog ate some of the fries, and  
he also truly enjoyed the treat. We each  
want to say thanks. It was fun.

Winifred Young

Bay City, Michigan

### DEAR McDONALD'S:

My comments: dinner for seven persons  
for approximately GS/46.50 (US\$22)—  
total quality service with an ideal cost.  
If every commercial enterprise were like  
McDonald's, people will have enough  
money to cover their basic necessities,  
making the physical and mental frontiers  
between nations disappear.

Ricardo Robledo Perez

Asuncion, Paraguay

### DEAR McDONALD'S:

I am in a small village school (nine  
years old) and am very happy you came  
so close to me. I heard a lot of beautiful  
things about your beautiful restaurants,  
but I was curious to visit them and espe-  
cially to taste the goodies you brought.  
I am fond of french fries and ice cream.  
Now I know you are here and I love you as  
much as you love the children. I promise  
I will always come to visit you every time I  
reach the city with my parents.

Ghita Teodora Elena

Pleasa, Prahova District, Romania

### DEAR McDONALD'S:

The opportunity to visit the Atlanta  
Summer Olympics Games was an exciting  
time for me and my family. It made me  
realize how much corporations care and  
do so much for our country. Without your  
corporation's contributions, the Games  
would not have been as wonderful as  
they were!

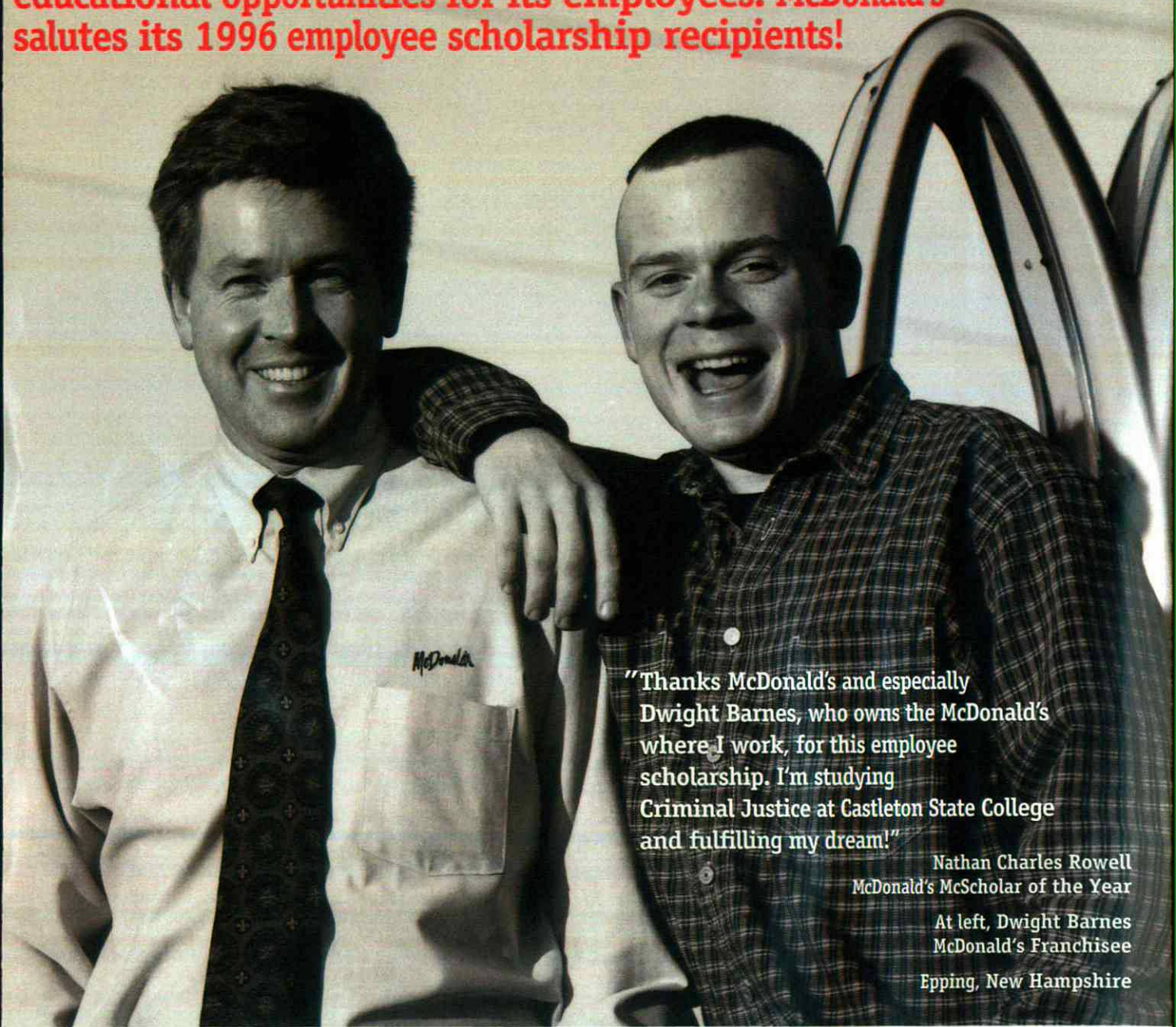
Linda Lang

Brunswick, Georgia

## HOW ARE WE DOING?

As shareholders and customers, we're  
interested in your thoughts about  
McDonald's. You can write to us in care  
of Investor Relations Service Center,  
McDonald's Corporation, McDonald's  
Plaza, Oak Brook IL 60521.

**McDonald's® franchisees and company-operated restaurants contributed more than \$3 million to educational programs throughout the U.S. during the past year. As an employer of opportunity, McDonald's is committed to creating career and educational opportunities for its employees. McDonald's salutes its 1996 employee scholarship recipients!**



"Thanks McDonald's and especially Dwight Barnes, who owns the McDonald's where I work, for this employee scholarship. I'm studying Criminal Justice at Castleton State College and fulfilling my dream!"

Nathan Charles Rowell  
McDonald's McScholar of the Year

At left, Dwight Barnes  
McDonald's Franchisee  
Epping, New Hampshire

<b>Kevin Benson</b> Kenal, AK Dena & Scott Cunningham, franchisees	<b>Larry Dai Keong Au</b> Honolulu, HI Mike & Barbara Ichinose, franchisees	<b>Ashley Reikeman</b> Abilene, KS Chuck & Karen Overbey, franchisees	<b>James Ganzevoort</b> Kentwood, MI Larry & Dawn Berg, franchisees	<b>Joe Hausmann</b> Raymond, NH Dwight Barnes, franchisee	<b>Kimberly Davis</b> Williamsport, PA Doug Doherty, franchisee	<b>Amber Hall</b> Pasco, WA Lee Adams, franchisee	<b>Jessica Teece</b> Lake Tomahawk, WI Jeffrey Pirk, franchisee
<b>Karolyn Chaffin</b> Albertville, AL Charlotte & Ronnie Dutton, franchisees	<b>Bo Yang</b> Honolulu, HI Martin Lau, store manager	<b>Alisha Elzy</b> Winnboro, LA Craig & Maryann Langnes, franchisees	<b>Trisha Larson</b> Vestaburg, MI Charlie McCann, franchisee	<b>Katherine Czerkas</b> Newark, NY Bob Weichbrodt, franchisee	<b>Amanda Storms</b> South Williamsport, PA Doug Doherty, franchisee	<b>Laurie Ohman</b> Plymouth, WI Ray Germain, franchisee	<b>Tami Badgett</b> Sheridan, WY Larry Storo, franchisee
<b>Dana Douglas</b> Hamburg, AR Herbert Hutchison, franchisee	<b>Melissa Hoyle</b> Normal, IL Rick & Dona McGraw, franchisees	<b>Latisha Hill</b> Prince Frederick, MD Almus Hamod, store manager	<b>Holly Kragthorpe</b> Shakopee, MN Alan & Anne Grover, franchisees	<b>Jenny Vitticore</b> Clyde, NY Bob Weichbrodt, franchisee	<b>Scott Dierks</b> Stouffville, ON Rick Lessner, franchisee		
<b>Laura McCann</b> Paradise, CA Carl & Sandy Schlicht, franchisees	<b>Bryan Lange</b> Champaign, IL David Hubbell, store manager	<b>Brandon Rush</b> Poolesville, MD Catherine & Bryan Cleghorn, franchisees	<b>Julie Lubken</b> Guthrie, MN Tim O'Keefe, franchisee	<b>Girish Amar</b> Rutherfordton, NC David Hunt, franchisee	<b>Heather Campbell</b> Middleton, TN Kent & Betty Lynn Collier, franchisees		
<b>Patricia Heffernan</b> Shelton, CT Jill & Hassan Dana, franchisees	<b>Kelly Keeney</b> Pete & Melissa Wojtowicz, franchisees	<b>Joshua Valerio</b> Mattapan, MA Sidney Boorstein & Bob King, franchisees	<b>Katie Maruska</b> Columbia Heights, MN Jeff Smith, franchisee	<b>Joy Smith</b> Mansfield, OH Shirley & Stewart Monica, franchisees	<b>John Lowe II</b> Maryville, TN Littton Cochran III, franchisee		
<b>Nicole Cross</b> Kathleen, FL Robin Martin, store manager	<b>Brian Keiser</b> Hagerstown, IN Dana & Jean Weigle, franchisees	<b>Cari Blind</b> Alger, MI Judy Loxton, franchisee	<b>Chad Salzwedel</b> Windom, MN Wes Clerc, franchisee	<b>Tammy Neujahr</b> Yukon, OK Greg & Anita LaPat, franchisees	<b>Jennifer Rheinecker</b> Kingston Springs, TN Will Mason, franchisee		
<b>Wynonna Murphy</b> Dunnellon, FL Jim & Shirley Stone, franchisees	<b>Valerie Vandertip</b> Des Moines, IA Sean Boyer, store manager	<b>Kristen Bullock</b> Charlotte, MI Joe & Andrea Fix, franchisees	<b>Heather Schaff</b> East Helena, MT Lowell Bartels, franchisee	<b>Michael Edwards</b> North Plains, OR Steve Sakaguchi, franchisee	<b>Theresa Knight</b> Linden, TX Tom & Nancy Sadowski, franchisees		
<b>Audrey Coles</b> Albany, GA James W. Smith, franchisee			<b>Sheri Engebretsen</b> Hawthorne, NY Thomas Matthews, franchisee		<b>Thomas Block</b> Marshall, VA Anil Singh, store manager		

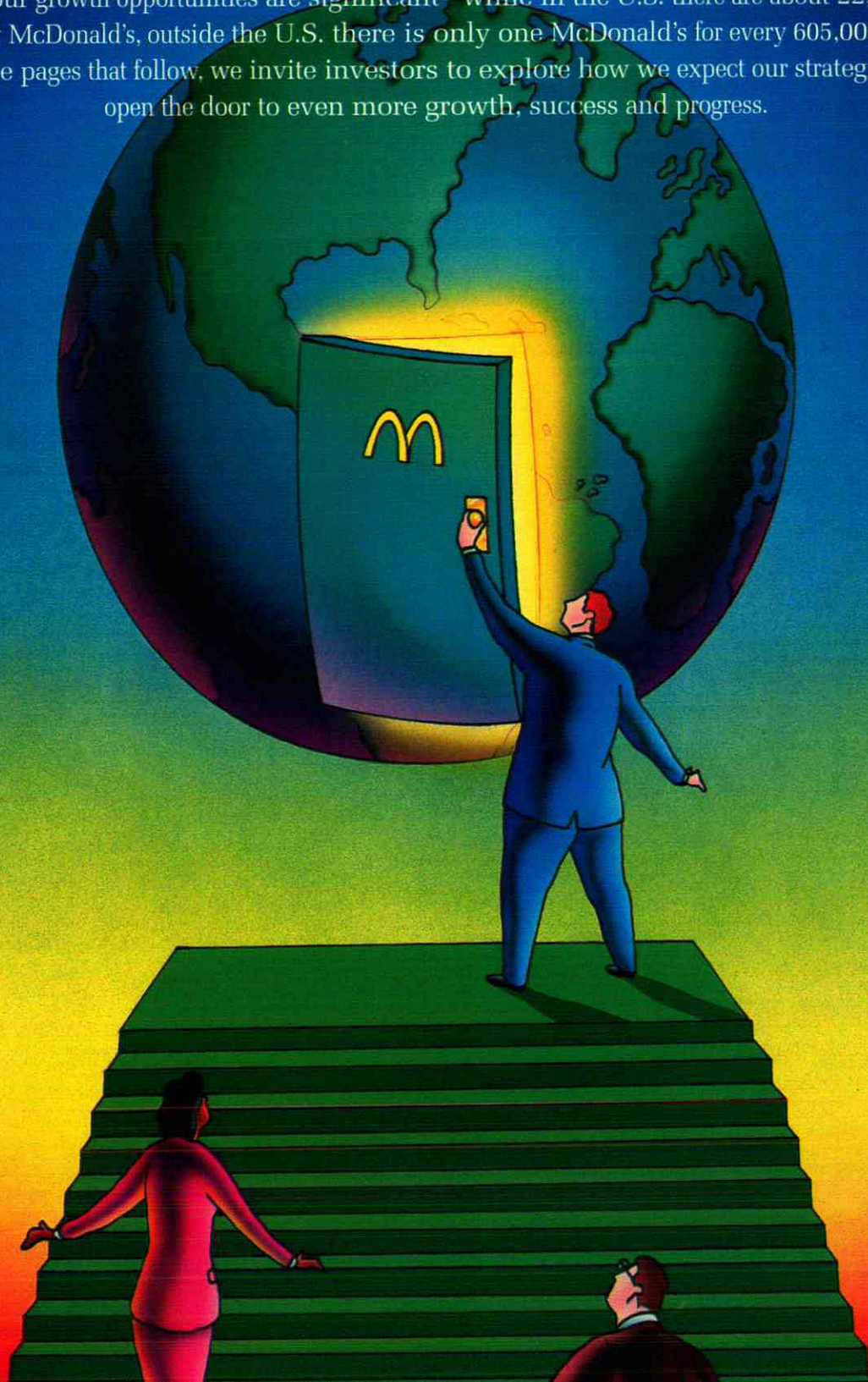


# Investor Perspective

What do McDonald's investors own? They own a part of the world's largest foodservice retailer, whose vision is to dominate the global foodservice industry. Global dominance means setting the performance standard for customer satisfaction and increasing market share and profitability through successfully implementing our Convenience, Value and Execution Strategies.

In 1996, we moved closer to achieving our vision. We introduced Brand McDonald's to more countries around the world and expanded the presence of the Golden Arches in many others. And still, our growth opportunities are significant—while in the U.S. there are about 22,000 people for every McDonald's, outside the U.S. there is only one McDonald's for every 605,000 people.

In the pages that follow, we invite investors to explore how we expect our strategies to open the door to even more growth, success and progress.



## Convenience: be near customers and easy to use

In today's busy world, people want fast, hassle-free solutions. Our Convenience

Strategy makes selecting McDonald's to satisfy hunger an easy decision for

customers. In 1996, we expanded at a record-breaking pace around the world.

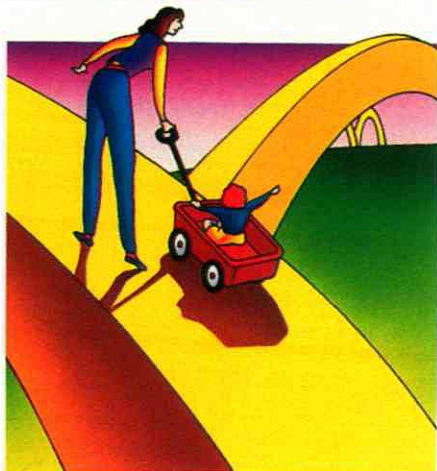
We added more than 2,600 restaurants—more than we added in our first 17 years

in business. We expect to continue growing,

and plan to add between 2,400 and

2,800 restaurants in 1997, with more

than 70 percent of those outside the U.S.



## Market development

The focus of our long-term development strategy is to identify and evaluate profitable growth opportunities on a market-wide basis. The strategy responds to the competitive and customer-driven dynamics of each market. By matching the right restaurant experience with the right location in the trading area, we build on our competitive advantage of market convenience and penetration.



Lane Cove petrol station, Australia.

Building traditional restaurants that provide the full McDonald's experience and establish our brand remains a priority, particularly in new markets. Our plans also include alliances with some of the world's leading petroleum and retail companies. Through these alliances, we gain access to new markets, new customers, prime locations and lower development and operating costs.

### NEW PLACES

On December 10, 1996, Belarus became the 100th country where customers enjoy the great taste of McDonald's. During the grand opening celebration, the city was entertained by marching bands and fireworks. Ronald McDonald was on hand for a party with 100 children. To mark the country's 100th designation, the McDonald's System, through Ronald McDonald House Charities, donated US\$100,000 to the Child's Center of the Republic of Belarus, Minsk's main children's hospital, to buy a neo-natal ambulance.

We entered 12 countries in 1996—Belarus, Croatia, the Dominican Republic, Fiji, India, Jordan, Liechtenstein, Lithuania, Paraguay, Peru, Tahiti and Western Samoa—more than in any other year.

> SERVING CONVENIENCE WITH SMILES. These two crewpeople in Venezuela deliver McDonald's great-tasting food.

## We're growing . . .

Our international business contributed 59 percent to 1996 worldwide operating income, compared with 39 percent five years ago. Most of our international expansion is in our 10 largest markets. However, our newer and smaller markets will soon account for nearly half of our openings. For example, we plan to more than triple our size in China over the next three years.

While site development is our primary means of expansion, we are always open to new opportunities. For instance, in Italy, we purchased about 80 restaurants from Burghy, Italy's largest burger chain. This nearly tripled our restaurant base there, while providing access to sites otherwise unavailable for new construction due to zoning laws.

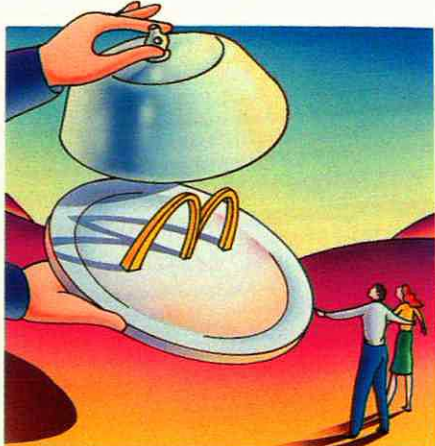
International success is nothing new for the Golden Arches—McDonald's in Australia, Germany, Guam, Japan, the Netherlands and Panama celebrated 25th anniversaries in 1996.

We also plan to grow our business in the U.S. as we develop markets and find new ways to bring people the great taste of McDonald's.



## Value: provide great products, good prices and extras to enrich the experience

McDonald's has always meant value. From our 15-cent hamburgers in our early days to today's Extra Value Meals, we have led the industry in delivering innovative ways for customers to get their money's worth. And yet, value at McDonald's goes beyond the wallet. We align ourselves with the community events, entertainment promotions



and personalities that are important to our customers. By doing so, we provide something no one else can—the total McDonald's experience.



### Going for the gold

Our Olympic alliance reinforces McDonald's global brand image. The Olympics and McDonald's exemplify the same values: dedication, leadership, excellence and achievement. So McDonald's major presence at the 1996 Summer Games in Atlanta was a natural. Not only were we a Centennial Olympic Games Partner, we provided the *first* ever branded restaurant service in an Olympic Village. More than 600 McDonald's crew, restaurant managers, support staff and supplier employees from nine countries served spectators at 11 sites in competition venues and served athletes, coaches and officials at five sites in the Olympic Village. Judging from the 195,000 burgers, 135,000 orders of Chicken McNuggets, 88,000 breakfast sandwiches and 173,000 orders of our World Famous Fries eaten by the athletes, McDonald's food was a "perfect 10"!

Now, we've expanded our role to Worldwide Olympic Partner through the year 2000. McDonald's Olympic alliance gives us marketing rights for the 1998 Winter Games in Nagano, Japan, and the 2000 Summer Games in Sydney, Australia, for our restaurants around the world. And at both of these great events, we will again provide the great taste and quality of McDonald's food for the athletes and coaches in the Olympic Village. What a world-class platform to showcase our brand!



### Seeing spots

A preview of the power of the McDonald's-Disney alliance was our promotion linked to Walt Disney's live-action movie, *101 Dalmatians*. In our most successful Happy Meal promotion ever, customers collected Dalmatian puppy toys, 101 in all. With our puppy-shaped McDonald's cookies, collectible snow domes, puppy posters and puppy ears, our customers had a doggone great time catching Dalmatian fever!

One customer, Rosie O'Donnell, star of television and films, is an avid Happy Meal toy collector. To celebrate the 101st episode of her talk show, Pongo, Perdy and Ronald McDonald sent Rosie a complete *101 Dalmatians* collector set and gave a toy to each member of the audience. Looks like "101" is a good number for everyone!

### A GLOBAL IDEA

Value is a primary driver of customer satisfaction around the world. Each market tailors its Value Strategy to the economic conditions, competitive environment and cost structure in its area. For example, in Japan, our success with Extra Value Meals, everyday low prices and price-point promotions has established us as a leader in a highly competitive marketplace. In Central Europe, where competition is less intense, the value we provide today enhances our ability to create brand loyalty and capture a broadening customer base.

We are profitably supporting value by leveraging our global buying power with worldwide purchasing and logistics efforts. Through global purchasing and other initiatives, we identified nearly \$300 million in annualized savings in 1996, bringing the cumulative identified Systemwide savings to about \$900 million over the past five years.

## Execution:

# give customers the service they deserve to keep them coming back

McDonald's is all about people. We build great restaurants in convenient locations, provide delicious tasting food and offer promotions with creativity second to none. But in the end, it is our people—going the extra mile...doing what it takes...impressing and serving customers—who create and nurture the success of Brand McDonald's.



## It's a great time to be grown up

McDonald's made menu history in 1996. First, we introduced the Arch Deluxe in the U.S. and Canada—a new McDonald's sandwich created specially for today's adult taste preferences. Then we built on our success with the U.S. launch of an entire new product line: Crispy Chicken Deluxe, Grilled Chicken Deluxe and Fish Filet Deluxe. This debut marked McDonald's renewed commitment to tastes adults love. Our goal is to have adults love to visit McDonald's as much as kids do.



## Drive-thru

As drive-thru at McDonald's turns 21 this year, the concept is coming of age. People, pressed for time, increasingly look for ways to make their hectic lives easier. Innovations such as cellular phones, laptop computers and voicemail mean more people use their cars as portable offices. If they can visit McDonald's without leaving their cars, so much the better.

Drive-thru accounts for 54 percent of our U.S. sales. To drive-thru customers, "easy" is paramount—fast service, an accurate order and a smile at the window. To stand out from the crowd, we're focusing on drive-thru service. We have developed tools to help managers analyze their drive-thru operation to shorten service times. And we're concentrating on accuracy through operating procedures inside the restaurant and easy-to-read signs outside. Our efforts are reducing transaction times and increasing car counts during peak periods...all without additional investment. We're also converting to face-to-face ordering where possible and have made it standard in new restaurants with drive-thrus around the world. It all adds up to increased sales and more satisfied customers.

## LESS IS MORE

We are simplifying operations to improve customer service.



We've added pictorial guides at each kitchen workstation to illustrate how to prepare our food and how our sandwiches should be built, making crew training much easier. We've eliminated unnecessary steps through enhanced restaurant layout, shortening service times. We've streamlined our menu to focus on the right products, improving our service and production system, and simplifying inventory. When you add it all up, faster service...better taste...and lower cost—it's clear that less is more.

## CHIEF FINANCIAL OFFICER ANSWERS

# Shareholder Questions

The year 1996 was exciting and challenging for McDonald's. Mike Conley,



**Executive Vice President and Chief Financial Officer, discusses what happened, why and what the future holds.**

**Q** McDonald's spent a lot of money and effort on developing and promoting your Deluxe sandwiches; yet I've read they weren't very successful. How have they done?

**A** Last year, we introduced our Deluxe sandwiches, headed up by the Arch Deluxe. Despite what you might have read, these new sandwiches are meeting our forecasts and expectations. The press—possibly as a result of our exuberant product launch publicity—seemed to think this line would *single-handedly* change the momentum of the U.S. business. Considering the size and breadth of McDonald's business, that was never our intent. What we did intend for this line is happening: these sandwiches are helping position McDonald's over the long term as a great place for adults as well as kids.

**Q** What are you doing to improve comparable sales?

**A** Improving comparable sales (sales in restaurants open more than 13 months) in the competitive U.S. market means selling more food. So, our emphasis is on increasing customer visits. In the U.S., we'll do that by concentrating on our customers: re-energizing and focusing our marketing efforts, being aggressive in providing maximum price value, continuing to improve service in our restaurants and enhancing food taste.

Our international business is strong and has enormous opportunity. Our com-

parable sales growth is sometimes tempered by weak and cyclical economies and our rapid expansion rate. However, to firmly establish our lead, we'll continue to develop at a fast pace. Thus, we'll keep doing what made us successful: expand into profitable locations, deliver great quality, service and cleanliness and provide outstanding value.

**Q** The stock price moved from \$45 1/8 to a high of \$54 1/4 early in 1996, but closed the year up only 1/4 at \$45 3/8. What happened?

**A** If I knew what drove the stock market, I'd be a happy man! Seriously, our stock price didn't move much in 1996 and, frankly, as a shareholder, I'd like it to be higher. Still, it's important for investors to assess stock performance over the long term. And I'm very excited about the Company's long-term performance potential.

Consider that our stock's compound annual total return for the five years ended 1996 was 20 percent. By comparison, the Dow Jones Industrial Average advanced 18 percent and the Standard & Poor's 500 advanced 15 percent.

**"It's important for investors to assess stock performance over the long term. And I'm very excited about the Company's long-term performance potential."**

McDonald's is very strong financially. Since 1991, we have accelerated expansion, repurchased stock and paid an increasing dividend—all at the same time. In the 10 years ended 1996, we bought back \$3.2 billion, or 142 million shares, of our common stock. And by the end of

#### Market price per common share

	1995			1996		
Qtr.	High	Low	Close	High	Low	Close
1st	35 3/4	28 5/8	34 1/8	54 1/4	42 1/2	48
2nd	39 1/4	33 3/4	39 1/8	50 3/8	45 3/8	46 3/4
3rd	41 1/2	35 7/8	38 1/4	49	41	47 3/8
4th	48	37 3/4	45 1/8	49 3/8	43 3/4	45 3/8

1998, we plan to complete our \$2 billion repurchase program announced in 1996, improving our per share growth rate and return on equity. We've paid 83 consecutive quarterly dividends and increased our dividend 22 times since declaring our first in 1976. Today's annualized dividend is 30 cents per share.

**"McDonald's System members own 16 percent of our outstanding common stock. That underscores the commitment we have to our business..."**

Additionally, McDonald's System members own 16 percent of our outstanding common stock. That underscores the commitment we have to our business and our belief that the best is yet to come.

**Q** The U.S. business has been tough. How has this affected your U.S. franchisees and your relationship with them?

**A** We have a long history of ongoing dialogue with our U.S. franchisees. Needless to say, we don't always see eye-to-eye with 100 percent of them. Yet, ultimately we share the same goal: maximize profitability through quality, service, cleanliness and value. How we achieve that is open to discussion, discussion which I believe is good for the System. We are committed to listening to our franchisees and working with them to improve the business. We believe our relationship with our franchisees is strong and healthy. This strength recently led to our recognition as the #1 franchising organization by *Entrepreneur* and *Franchise Times* magazines.

In the current competitive U.S. environment, some of our franchisees were dissatisfied with the sales and profit trends in their businesses in 1996—as were we. That does not change the fact that they are still proud to be part of the McDonald's System. And they know that—to improve sales and profits—we must be a focused, united System. We are looking forward to working together in 1997 to do just that.

# Commitment to Communities

*Around the world, McDonald's is committed to being a good neighbor... giving back to the communities that make McDonald's successful... and being a respectful member of the neighborhoods we share.*

## ENVIRONMENT

McDonald's recognizes its environmental responsibility, so we work hard to preserve and protect the earth. Our principles are to reduce, reuse and recycle; conserve and protect natural resources; and require supplier accountability.

McDonald's does not, has not and will not permit the destruction of tropical rain forests for our beef supply—a policy strictly enforced and closely monitored. In addition, we require suppliers to adhere to laws, regulations and industry guidelines concerning the humane treatment of animals.

## DIVERSITY/EMPLOYMENT

Diversity of employees, franchisees and suppliers is a key business objective. We believe we can best serve customers by encouraging diversity among these groups. McDonald's is also committed to developing and enhancing long-term business relationships with minority- and women-owned suppliers.

Around the world, McDonald's and its franchisees and affiliates are committed to offering fair, equitable and nondiscriminatory wages; rewarding individual and team performance; and creating career growth opportunities. We encourage our suppliers to share similar values and standards.

## EDUCATION

As a large employer of youth, we have a responsibility to help students balance part-time work with classes, homework and extra-curricular activities. We work with educators and develop curricula for schools at low or no cost. Among many programs, we recognize academic accomplishment with the Ray A. Kroc Youth Achievement Award and teaching excellence by co-sponsoring the American Teacher Awards with Disney. Our franchisees and Company-operated restaurants contributed over \$3 million to education throughout the U.S. in 1996.

## Hundreds of Success Stories

Thanks to thousands of McDonald's franchisees and other volunteers working together around the world, Ronald McDonald House Charities (RMHC) is able to continually expand its efforts in "Lifting Kids To A Better Tomorrow."

Since its beginning in 1984, RMHC has awarded more than \$106 million in grants for civic and social services, education, the arts, health care and medical research. It has also helped families who were victims of hurricanes, floods and earthquakes. One of its best known services is the Ronald McDonald House program. These houses provide a home-away-from-home for families whose seriously ill children are being cared for at hospitals far from their hometowns. At the end of 1996, 179 houses in 14 countries hosted more than 2,700 families every night.

The history of RMHC's growth around the world is actually a collection of hundreds of individual community success stories. One such story is that of Albert and Carol Mueller, owner/operators of 14 McDonald's restaurants in and around Scranton, Pennsylvania. The Muellers personify the way franchisees join with local volunteers to make their communities even better places to live.

In 1980, the Muellers spearheaded the drive to open the first Ronald McDonald House located in a rural setting—near Danville, Pennsylvania. Building on this success, in 1987 they again worked with their fellow franchisees and other community leaders to raise money for a Ronald McDonald House in Scranton.

They continue to lend support and assistance to the Ronald McDonald Houses. Today, Albert is President of RMHC of Northeast Pennsylvania and Carol serves as president of the Ronald McDonald House in Scranton.

The Muellers are active in a number of community causes. Their annual Gourmet Gala features dishes created and donated by more than 50 local restaurants. This event is a Scranton favorite and raises more than \$50,000 for RMHC in one night.



McDonald's franchisees Albert and Carol Mueller are celebrating 25 years of giving back to the communities they serve.

## Bringing People Together

"McDonald's is such a great vehicle to bring people together," Carol says. "Because the name is so well recognized and respected in the communities, it's easy to get people excited about our projects. Plus, McDonald's means 'fun,'

so we always have a great time while serving a good cause. We're also very proud that our restaurant managers are active in their own communities as well."

Albert adds, "It's gratifying when people—from the mayor to guests of the Ronald McDonald House—see you on the street and thank you for your contributions. And our community involvement brings people into our restaurants—both as customers and employees."

Giving back to help others is a way of life for the Muellers. "I learned a saying in Germany when I was a child—'The way you call into the woods, that's the echo you will get,' and I've always tried to live up to it," Albert says. "We believe every business ought to share its success with the community. And we believe that in giving, we get the greatest gift of all."

# 数条行动篇

人的财富何其多？数一数薯条有几多？数对即能买一送一，多得一包大薯条。吃个痛快，别管那么多！

我的麦当劳



Advertisement from Singapore. Promotion ended October 1996, offered coupon for guessing the right number of fries.

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# Analyzing Financial Performance

## Consolidated operating results



Expansion continued at an accelerated pace in 1996 as 2,642 restaurants were added Systemwide. McDonald's plans to add between 2,400 and 2,800 restaurants in 1997—more than 70 percent outside the U.S.

### Systemwide sales and restaurants

Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. Sales increases in 1996 and 1995 were primarily due to restaurant expansion worldwide. In 1996, sales were affected adversely by negative U.S. comparable sales and weaker foreign currencies. In 1995, sales benefited from stronger foreign currencies and higher comparable sales. Sales by Company-operated restaurants grew at a higher rate than Systemwide sales in 1996 and 1995. This was because both expansion and comparable sales at Company-operated restaurants increased at a higher rate than at Systemwide restaurants.

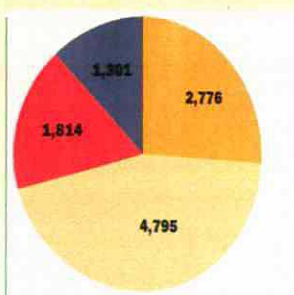
(In millions)	1996	1995	1994
U.S.	\$16,369.6	\$15,905.2	\$14,941.0
Europe/Africa/Middle East/India	7,546.1	6,807.7	5,271.2
Asia/Pacific	5,347.5	4,834.8	3,794.8
Canada	1,276.3	1,236.8	1,186.1
Latin America	1,272.6	1,129.4	794.3
Total Systemwide sales	\$31,812.1	\$29,913.9	\$25,987.4

Expansion continued at an accelerated pace in 1996 as 2,642 restaurants were added Systemwide (1,995 traditional and 647 satellites). This compares with 2,430 in 1995 (1,604 traditional and 826 satellites), and 1,787 in 1994 (1,212 traditional and 575 satellites). Systemwide restaurants opened during the year contributed \$1.4 billion to Systemwide sales in 1996, \$1.2 billion in 1995 and \$.9 billion in 1994.

McDonald's plans to add between 2,400 and 2,800 restaurants in 1997, with a greater emphasis on full-menu traditional restaurants and international locations than in 1996.

### Total revenues

Total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees are based on a percent of sales with specified minimum payments. The minimum fee includes both a rent and service fee that amount to about 12.5% of sales for new U.S. franchise arrangements, compared with about 12.0%



Total revenues  
in millions of dollars

Sales by Company-operated restaurants  
 ● U.S. ● Outside the U.S.  
 Revenues from franchised and affiliated restaurants  
 ● U.S. ● Outside the U.S.

prior to 1994. Fees vary by type of site and investment required by the Company, and also according to local business conditions outside the U.S. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms. Accordingly, these fees provide a stable, predictable revenue flow to the Company.

Revenues grow as new restaurants are added and as sales build in existing restaurants. Menu price changes also affect revenues and sales, but it is impractical to quantify their Systemwide impact because of different pricing structures, new products, promotions and product mix variations among restaurants and markets.

Total revenues for 1996 and 1995 increased due to strong global operating results and an increase in Company-operated restaurants through expansion and changes in ownership. Negative U.S. comparable sales and weaker foreign currencies had an adverse impact on 1996 revenues, while positive comparable sales and stronger foreign currencies contributed to the 1995 increase.

In 1996, 63% of sales by Company-operated restaurants and 42% of revenues from franchised and affiliated restaurants were generated outside the U.S., up from 60% and 40%, respectively, in 1995.

### Changes in operating results from prior year

	1996		1995	
(Dollars rounded to millions, except per common share data)	Increase/(decrease) Amount	%	Increase/(decrease) Amount	%
<b>Systemwide sales</b>	<b>\$1,898</b>	<b>6</b>	<b>\$3,927</b>	<b>15</b>
<b>Revenues</b>				
Sales by Company-operated restaurants	\$ 707	10	\$1,071	18
Revenues from franchised and affiliated restaurants	185	6	403	16
<b>Total revenues</b>	<b>892</b>	<b>9</b>	<b>1,474</b>	<b>18</b>
<b>Operating costs and expenses</b>				
Company-operated restaurants	616	11	903	19
Franchised restaurants	55	11	80	18
General, administrative and selling expenses	130	11	153	14
Other operating (income) expense—net	60	(57)	(22)	26
<b>Total operating costs and expenses</b>	<b>861</b>	<b>12</b>	<b>1,114</b>	<b>18</b>
<b>Operating income*</b>	<b>31</b>	<b>1</b>	<b>360</b>	<b>16</b>
Interest expense	2	1	34	11
Nonoperating income (expense)—net	53	(58)	(43)	88
<b>Income before provision for income taxes</b>	<b>82</b>	<b>4</b>	<b>283</b>	<b>15</b>
Provision for income taxes	(63)	(9)	80	12
<b>Net income</b>	<b>\$ 145</b>	<b>10</b>	<b>\$ 203</b>	<b>17</b>
<b>Net income per common share</b>	<b>\$ .24</b>	<b>12</b>	<b>\$ .29</b>	<b>17</b>

\*Excluding SFAS 121 and special charges, 1996 operating income would have increased \$119 million, or 5%.

### Restaurant margins

Margins for Company-operated restaurants were 18.6% of sales in 1996, compared with 19.2% in 1995 and 19.8% in 1994. As a percent of 1996 and 1995 sales, occupancy and other operating costs increased; payroll costs remained relatively flat; and food and paper costs declined in 1996 and increased in 1995.

Franchised restaurant margin dollars made up about two-thirds of the combined operating margins in both 1996 and 1995. Franchised margins were 81.7% of applicable 1996 revenues,

down from 82.4% in 1995 and 82.8% in 1994. The decreases for both years were partly due to a higher proportion of leased sites. For leased sites, financing costs are included in rent expense, which affects margins; for owned sites, financing costs are reflected in interest expense. The 1996 decrease was also partly attributable to negative U.S. comparable sales.

Franchised margins include revenues and expenses from restaurants operating under business facilities lease arrangements. Under these arrangements, the Company leases the businesses, including equipment, to franchisees who have options to purchase the businesses. Higher fees are charged but margins are generally lower because of equipment depreciation. The Company is compensated for lower margins by the subsequent gains realized from the exercise of purchase options, accounted for as other operating income. There were 627 restaurants operating under such arrangements at year-end 1996, compared with 491 in 1995 and 484 in 1994. The majority of these were outside the U.S.

#### General, administrative and selling expenses

Increases in 1996 and 1995 were primarily due to strategic global investments supporting the Convenience, Value and Execution Strategies. These investments included costs associated with accelerated expansion, continued investment in developing countries and new U.S. food initiatives. Weaker foreign currencies reduced 1996 expenses slightly, while stronger foreign currencies increased 1995 expenses. These expenses have been relatively constant as a percent of Systemwide sales at 4.3% in 1996, 4.1% in 1995 and 4.2% in 1994.

Corporate general, administrative and selling expenses not allocated to geographic business segments were \$52 million in

1996 and \$48 million in both 1995 and 1994.

#### Other operating (income) expense-net

This category includes gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, net gains or losses from property dispositions and other transactions related to the foodservice business. The decline in other operating income in 1996 was principally due to the \$72 million special charge related primarily to plans to strengthen the U.S. business and reduce ongoing costs, and the \$16 million charge related to the adoption of Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (SFAS 121). Other operating income was positively affected by higher gains on sales of restaurant businesses and lower provisions for property dispositions, partly offset by lower income from affiliates. Income from affiliates declined in 1996, despite stronger operating results, principally due to a weaker Japanese Yen. The 1995 other operating income increase was due to higher income from affiliates, principally Japan, partly offset by higher losses on property dispositions.

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants, as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements. The Company's purchase and sale of businesses with its franchisees and affiliates is aimed at achieving an optimal ownership mix in each market. As an integral part of our franchising business, these transactions and resulting gains are recorded in operating income.

Equity in earnings of unconsolidated affiliates-businesses

Advertisement from Mexico. "A Big Taste For Adults."



Mc **nueva**  
**Nifica**™

Un sabor grande...  
para los grandes.



the Company actively participates in, but does not control—is reported after interest expense and income taxes, except for U.S. restaurant partnerships, which are reported before income taxes.

Net gains or losses from property dispositions result from disposals of properties no longer needed due to restaurant closings, relocations and other transactions.

### Operating income

Operating income of \$2.6 billion was negatively affected by the \$72 million special charge and the \$16 million SFAS 121 charge. Excluding these charges, operating income would have increased 5% in 1996, due to higher combined operating margin dollars and higher other operating income, partly offset by higher general, administrative and selling expenses and weaker foreign currencies. The 1995 increase reflected higher combined operating margin dollars and stronger foreign currencies, partly offset by higher general, administrative and selling expenses.

### Interest expense

Higher average debt levels, partly offset by lower average interest rates, accounted for the 1996 and 1995 increases. Weaker foreign currencies reduced the increase in 1996, while stronger foreign currencies contributed to the increase in 1995.

### Nonoperating income (expense)—net

The decrease in this category—which includes interest income, gains and losses related to investments and financings, and miscellaneous income and expense—reflected lower losses in 1996 associated with the Company's investment in Discovery Zone common stock. Losses of \$22 million in 1996 reduced the carrying value of this investment to zero, compared with losses of \$60 million in 1995. The decrease in expense also reflected foreign currency translation gains in 1996, compared with translation losses in 1995. The 1995 increase in expense also included higher charges associated with minority interests, partly offset by higher interest income and lower translation losses.

### Provision for income taxes

The effective income tax rate was 30.1% for 1996, compared with 34.2% for 1995 and 35.1% for 1994. A \$50 million tax benefit resulting from certain international transactions was primarily responsible for the unusually low rate in 1996. Excluding this benefit, the 1996 effective income tax rate would have been 32.4%, reflecting lower taxes related to foreign operations. The Company expects its 1997 effective income tax rate to be in the range of 32.5% to 33.5%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of \$305 million in 1996 and \$308 million in 1995. Substantially all of the tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

### Net income and net income per common share

Net income and net income per common share increased 10% and 12%, respectively, in 1996 and 17% each in 1995. Excluding the charge for the adoption of SFAS 121, net income and net income per common share increased 11% and 13% in 1996. The spread between the percent increase in net income and net income per common share in 1996 reflected the impact of share repurchase as well as lower preferred stock dividends. Lower dividends were due to the conversion of 11 million shares of Series B and C preferred stock into 8.7 million shares

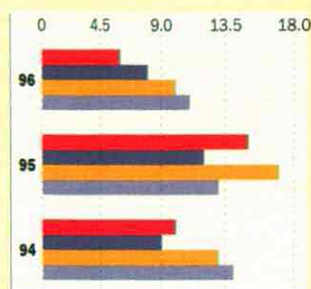
of common stock in 1995, which offset the impact of share repurchase in 1995.

### Impact of changing foreign currencies

While changes in foreign currency values affect reported results, the Company reduces short-term cash exposures by financing and purchasing goods and services in local currencies and by hedging foreign currency cash flows. Systemwide sales, revenues, operating income and net income were lower because of weaker foreign currencies in 1996, and benefited from stronger foreign currencies in 1995.

If exchange rates had remained at 1995 levels, results would have been as follows:

(Dollars in billions)	As reported				As adjusted			
	1996		1995		1996		1995	
Systemwide sales	\$31.8	6%	\$29.9	15%	\$32.4	8%	\$29.1	12%
Revenues	10.7	9	9.8	18	10.8	10	9.5	15
Operating income	2.6	1	2.6	16	2.7	3	2.5	12
Net income	1.6	10	1.4	17	1.6	11	1.4	13



Foreign currency impact on results

in percent increases

- Reported Systemwide sales
- Adjusted Systemwide sales
- Reported net income
- Adjusted net income

## U.S. operations



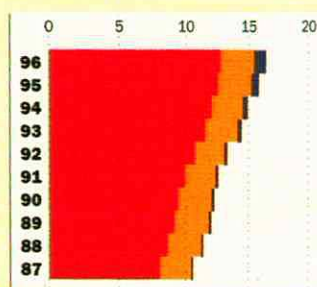
Management continues to be optimistic about our long-term opportunities to grow profitably in the domestic marketplace, building on our powerful brand, great-tasting food, convenient sites and outstanding franchisees.

### Sales

Restaurant expansion was primarily responsible for increasing sales in 1996 and 1995. Comparable sales were positive in 1995 and negative in 1996, reflecting an extremely competitive U.S. operating environment, and at times, severe weather and difficult comparisons.

(In millions)	1996	1995	1994	Five years ago	Ten years ago
Operated by franchisees	<b>\$12,663</b>	\$12,474	\$11,965	\$ 9,873	\$7,332
Operated by the Company	<b>2,776</b>	2,725	2,550	2,410	2,115
Operated by affiliates	<b>931</b>	706	426	236	87
U.S. sales	<b>\$16,370</b>	\$15,905	\$14,941	\$12,519	\$9,534

Average annual sales at U.S. restaurants in operation at least 13 consecutive months were \$1,439,000 in 1996 and \$1,538,000 in 1995. Average sales declined due to lower average sales for new, smaller restaurants (including satellites) and lower sales at existing restaurants. Unit expansion also affects average sales as new restaurants take about four years to reach long-term volumes. The Company believes that average sales will continue to be affected

**U.S. sales**

in billions of dollars

- Operated by franchisees
- Operated by the Company
- Operated by affiliates

The 1996 decrease is consistent with our decision to reduce our focus on satellites and open fewer total restaurants in the U.S.

by expansion into smaller, lower-cost sites which profitably support lower average volumes.

**Restaurants**

There were 726 restaurants added in the U.S. in 1996 (542 traditional and 184 satellites), compared with 1,130 in 1995 (597 traditional and 533 satellites), and 188 (all traditional) five years ago. The U.S. accounted for 27% of Systemwide restaurants opened in 1996, compared with 47% in 1995 and 31% five years ago.

	1996	1995	1994	Five years ago	Ten years ago
Operated by franchisees	9,467	8,950	8,222	7,149	5,549
Operated by the Company	1,847	1,836	1,640	1,446	1,623
Operated by affiliates	780	582	376	169	100
Total U.S. restaurants	12,094	11,368	10,238	8,764	7,272

The percent of U.S. restaurants operated by franchisees and affiliates has remained relatively constant over the past five years and was 85% at year-end 1996.

**Operating results**

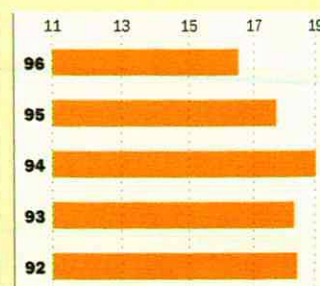
(In millions)	1996	1995	1994	1993	1992
<b>Revenues</b>					
Sales by Company-operated restaurants	\$2,776	\$2,725	\$2,550	\$2,420	\$2,353
Revenues from franchised and affiliated restaurants	1,814	1,749	1,606	1,511	1,396
<b>Total revenues</b>	<b>4,590</b>	<b>4,474</b>	<b>4,156</b>	<b>3,931</b>	<b>3,749</b>
<b>Operating costs and expenses</b>					
Company-operated restaurants	2,317	2,244	2,066	1,977	1,920
Franchised restaurants	334	304	270	247	235
General, administrative and selling expenses	740	682	628	569	507
Other operating (income) expense-net	55*	(8)	(25)	(18)	(13)
<b>Total operating costs and expenses</b>	<b>3,446*</b>	<b>3,222</b>	<b>2,939</b>	<b>2,775</b>	<b>2,649</b>
<b>U.S. operating income</b>	<b>\$1,144*</b>	<b>\$1,252</b>	<b>\$1,217</b>	<b>\$1,156</b>	<b>\$1,100</b>

\*Included the \$72 million special charge designed to strengthen the U.S. business and reduce ongoing costs.

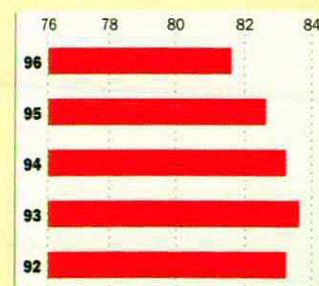
Expansion favorably affected U.S. revenues in 1996 and 1995, as did positive comparable sales in 1995.

U.S. Company-operated margins decreased \$23 million in 1996 and \$3 million in 1995, as lower comparable sales and higher costs more than offset the positive impact of an expanded Company-operated store base for a majority of the period. These margins were 16.5% of sales in 1996, compared with 17.7% in 1995 and 19.0% in 1994. Higher payroll costs as a percent of sales, primarily due to increases in average hourly rates, pushed margins lower in 1996 and 1995. Higher promotion costs as a percent of sales also had a negative impact on 1996 margins. Lower food and paper costs benefited margins in both 1996 and 1995.

U.S. franchised margins increased \$36 million, or 2%, in 1996 and \$109 million, or 8%, in 1995, driven by expansion. These margins were 81.6% of applicable revenues in 1996, compared with 82.6% in 1995 and 83.2% in 1994. Franchised margins as a percent of revenues declined in 1996 and 1995 because the increase in rent expense, resulting from the growth in leased sites, outpaced the growth in franchised revenues. In addition, 1996 margins were affected by negative comparable sales.

**U.S. Company-operated restaurant margins**

as a percent of Company-operated sales

**U.S. franchised restaurant margins**

as a percent of applicable revenues

Cost pressures on margins are expected to continue in 1997; therefore, our ability to maintain both Company-operated and franchised margins as a percent of applicable revenues will depend largely on our success in building comparable sales.

U.S. operating income decreased \$108 million, or 9%, in 1996 and rose \$35 million, or 3%, in 1995. The 1996 decrease was principally due to the \$72 million special charge related primarily to plans to strengthen the U.S. business and reduce ongoing costs. The charge covered closing approximately 115 low-volume U.S. satellite restaurants, replacing certain restaurant equipment, outsourcing excess property management and implementing other cost efficiencies. Without the special charge, U.S. operating income would have decreased 3% in 1996. This decrease primarily reflected lower Company-operated margin dollars and higher general, administrative and selling expenses. These expenses included higher employee costs and expenditures to support our Convenience, Value and Execution Strategies, partly offset by higher franchised margin dollars. The 1995 increase was due to higher combined restaurant margins, partly offset by higher general, administrative and selling expenses. Operating income included \$396 million of depreciation and amortization in 1996, compared with \$380 million in 1995 and \$366 million in 1994.

In 1997, McDonald's focus will be to increase sales at existing restaurants through aggressive marketing, a national value initiative, improved food taste, better service and improved facilities.

**Assets and capital expenditures**

U.S. assets increased \$514 million, or 7%, in 1996 and \$547 million, or 8%, in 1995. These increases were due to expansion and increased reinvestment in existing restaurants since 1994.

(In millions)	1996	1995	1994	1993	1992
New restaurants	\$ 559	\$ 602	\$ 472	\$ 332	\$ 196
Existing restaurants	212	213	125	122	125
Other properties	128	104	113	130	76
<b>U.S. capital expenditures</b>	<b>\$ 899</b>	<b>\$ 919</b>	<b>\$ 710</b>	<b>\$ 584</b>	<b>\$ 397</b>
<b>U.S. assets</b>	<b>\$7,554</b>	<b>\$7,040</b>	<b>\$6,493</b>	<b>\$6,200</b>	<b>\$5,995</b>

U.S. capital expenditures decreased \$20 million, or 2%, in 1996, compared with an increase of \$209 million, or 30%, in 1995. These amounts excluded initial investments in equipment, signs, seating and decor, as well as ongoing reinvestment expenditures made by franchisees. New restaurant expenditures decreased \$43 million, or 7%, as a result of fewer restaurant additions.

Expenditures for existing restaurants were made to achieve higher levels of customer satisfaction, implement technology to improve service and food quality, and enhance older facilities. In 1996, strategic reinvestment to build sales included \$37 million for indoor Ronald's Playplaces and \$27 million for rebuilding restaurants to adjust to changing demographics, traffic patterns and market opportunities. Over the past five years, the Company has invested \$83 million to replace older buildings with new, lower-cost, more-efficient restaurants.

Other properties primarily included expenditures for office buildings and related furnishings.

U.S. average development costs for traditional restaurants increased slightly in 1996 to \$1,176,000, compared with \$1,151,000 in 1995 and \$1,095,000 in 1994. The increases were primarily due to higher site development and preparation costs. Average development costs have decreased \$227,000, or 16%, from 1991 levels. Construction efficiencies and a shift toward smaller, lower-cost building designs since 1991 have contributed to this decrease.

The Company intends to further control development costs through standardization, global sourcing, greater economies of scale and co-branded oil locations. Our objective is to profitably expand into more locations, consistent with our goal of increasing market share with greater marketwide presence throughout the world.

The Company generally purchases new properties or enters into long-term leases with purchase options. This ensures long-term occupancy and control of related costs. The Company owned 61% of its U.S. sites at year-end 1996, compared with 62% at year-end 1995.

## Operations outside the U.S.



Operations outside the U.S. continue to contribute a growing percent to consolidated results. Yet, we are just beginning to tap the enormous potential of our global business.

### Sales

Increasing market share and customer satisfaction through expansion and value continue to be key strategic initiatives to build sales outside the U.S. These sales rose 10% in 1996 and 27% in 1995. Increases were primarily due to aggressive expansion beginning in 1995 and were achieved despite difficult economic conditions in several of the largest markets in both years. Weaker foreign currencies and comparisons to exceptional 1995 performances in certain markets reduced the 1996 increase. Positive comparable sales and stronger foreign currencies contributed to the 1995 increase.

Revenues increased at a faster rate than sales in 1996 and 1995. This is primarily because the weakening Japanese Yen had a greater effect on sales than on revenues and unit growth rates were higher for Company-operated restaurants than franchised restaurants.

(In millions)	1996	1995	1994	Five years ago	Ten years ago
Operated by franchisees	\$ 7,307	\$ 6,648	\$ 5,182	\$3,085	\$1,090
Operated by the Company	4,795	4,139	3,242	2,499	991
Operated by affiliates	3,341	3,222	2,622	1,825	817
Sales outside the U.S.	\$15,443	\$14,009	\$11,046	\$7,409	\$2,898

In Asia/Pacific, strong sales increases in Australia, Hong Kong, Japan and New Zealand were driven by Extra Value Meal marketing campaigns and rapid restaurant expansion in 1996.

In Europe, restaurant expansion and value continued to support sales growth in England, the Netherlands, Spain and Sweden in 1996. Our restaurant base in Italy nearly tripled with the acquisition of about 80 Burghy restaurants in mid-1996.

In Latin America, Brazil's sales growth returned to a more normal level in 1996, as the economy began to stabilize following tremendous sales growth in 1995, spurred by the mid-1994 economic reforms. We are encouraged by Mexico's recent operating results despite its weak economy.

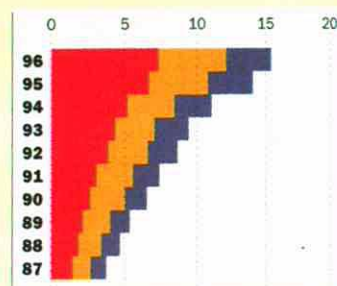
Canada's 1996 sales growth continued to be hampered by slow economic growth and decreased consumer retail spending.

Average annual sales at restaurants outside the U.S. in operation for at least 13 consecutive months were \$2,157,000 in 1996 and \$2,422,000 in 1995. This decrease is due to several factors. First, expansion in our largest markets is occurring in smaller cities and less-populated areas where smaller, less-costly buildings support lower average sales volumes. Second, weaker foreign currencies contributed about \$100,000 to the decline in 1996 average sales, whereas stronger foreign currencies increased the 1995 average. Additionally, the high unit expansion rate also affects average sales as new restaurants generally open at lower average volumes and build business over time.

### Restaurants

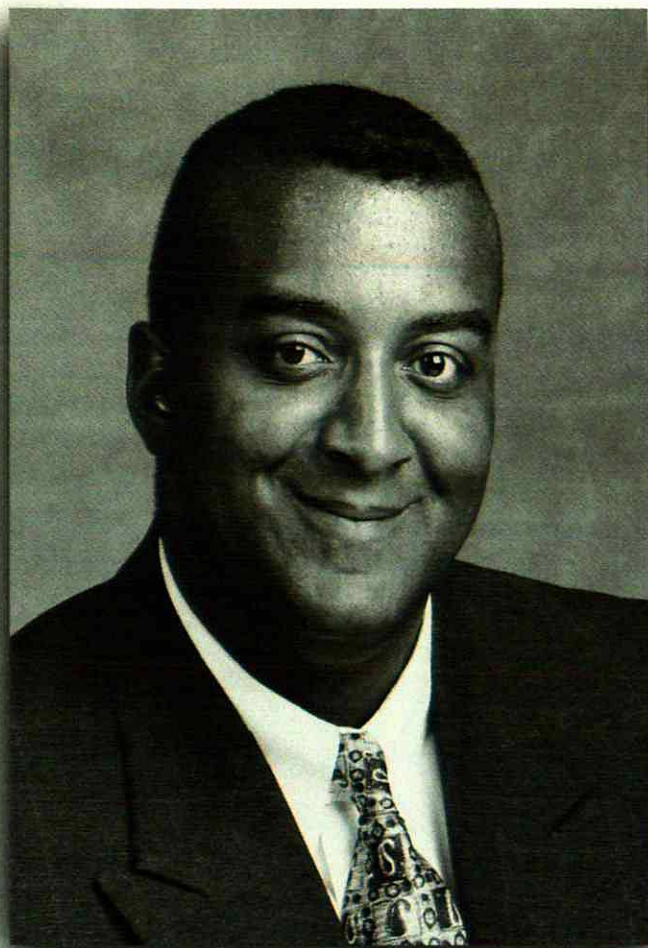
During the past five years, 61% of Systemwide restaurant additions have been outside the U.S. In both 1996 and 1995, 55% of restaurants outside the U.S. were in the seven largest markets—Australia, Brazil, Canada, England, France, Germany and Japan. In 1997, the seven largest markets are anticipated to open slightly more than 50% of the restaurants outside the U.S., while new and developing markets like Central Europe, China and the Middle East are expected to continue to represent a growing percent of restaurant growth.

In 1996, Japan added 522 restaurants (155 traditional and 367 satellites), representing 27% of restaurants opened outside the U.S. Japan's aggressive and profitable expansion was supported



**Sales outside the U.S.**  
in billions of dollars

- Operated by franchisees
- Operated by the Company
- Operated by affiliates



## "Welcome To Restaurant."

"Pride. Courtesy. Respect. At the McDonald's I manage, they may not appear on the menu, but they come with every order we serve, along with fast, accurate, and friendly service. Whether you walk through the door or pull up to the drive-thru, every customer deserves and is entitled to pride, courtesy, and respect."

*-Manager, John C. Mason  
4435 Executive Parkway*

by reduced restaurant development costs achieved through standardization of building designs, utilization of smaller buildings and expansion into less populated areas.

	1996	1995	1994	Five years ago	Ten years ago
Operated by franchisees	3,961	3,267	2,743	1,586	857
Operated by the Company	2,510	1,980	1,598	1,101	678
Operated by affiliates	2,457	1,765	1,371	967	603
Total restaurants outside the U.S.	8,928	7,012	5,712	3,654	2,138

Restaurants outside the U.S. represented 58% of Systemwide Company-operated restaurants and 29% of Systemwide franchised restaurants at year-end 1996. Approximately 65% of Company-operated restaurants outside the U.S. were in Australia, Brazil, Canada, England, Germany and Taiwan. About 66% of franchised restaurants outside the U.S. were operated in Australia, Canada, England, Germany, France, Japan and the Netherlands. Restaurants operated by affiliates were principally located in Japan and other Asian countries.

Most of the satellite restaurants operated outside the U.S. were in Japan, Canada and Brazil.

### Operating results

(In millions)	1996	1995	1994	1993	1992
<b>Revenues</b>					
Sales by Company-operated restaurants	\$4,795	\$4,139	\$3,242	\$2,737	\$2,750
Revenues from franchised and affiliated restaurants	1,301	1,182	923	740	634
<b>Total revenues</b>	<b>6,096</b>	<b>5,321</b>	<b>4,165</b>	<b>3,477</b>	<b>3,384</b>
<b>Operating costs and expenses</b>					
Company-operated restaurants	3,846	3,304	2,579	2,188	2,206
Franchised restaurants	236	211	165	133	114
General, administrative and selling expenses	574	507	408	335	320
Other operating (income) expense—net	(101)*	(98)	(59)	(44)	(51)
<b>Total operating costs and expenses</b>	<b>4,555*</b>	<b>3,924</b>	<b>3,093</b>	<b>2,612</b>	<b>2,589</b>
<b>Operating income outside the U.S.</b>	<b>\$1,541*</b>	<b>\$1,397</b>	<b>\$1,072</b>	<b>\$ 865</b>	<b>\$ 795</b>

\*Included the \$16 million SFAS 121 charge.

Operating income growth in 1996 and 1995 was driven by higher combined operating margin dollars resulting from expansion in both years, and in 1995, higher sales at existing restaurants. The increases in 1996 were partly offset by a \$16 million charge for the adoption of SFAS 121 related to restaurant sites in Mexico, and weaker foreign currencies, primarily the Japanese Yen and Deutsche Mark. Operating income growth benefited from stronger foreign currencies in 1995.

The seven largest markets accounted for about 80% of total operating income outside the U.S. in 1996. They also contributed 56% to growth of operating income outside the U.S., compared with 89% in 1995. Accelerating operating income growth in developing markets and weak economies in France and Germany were the primary reasons the seven largest markets contributed a smaller percent of the operating income growth in 1996 compared with 1995.

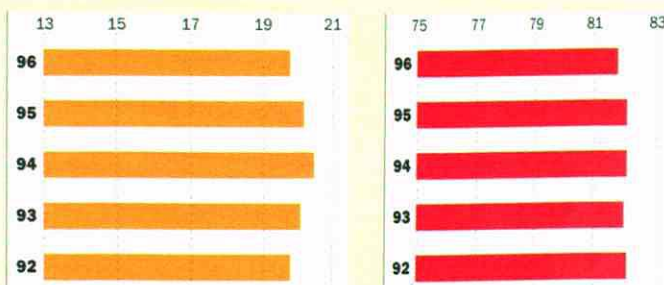
Operations outside the U.S. continue to contribute a growing percent to consolidated results.

Operations outside the U.S. as a percent of consolidated results

	1996	1995	1994	1993	1992
Systemwide sales	49%	47%	43%	40%	39%
Total revenues	57	54	50	47	47
Operating income	59	54	48	44	43
Operating margins					
Company-operated	67	63	58	55	56
Franchised	42	40	36	32	31
Systemwide restaurants	42	38	36	34	32
Assets	55	53	51	47	45
Capital expenditures	63	55	54	56	65

Company-operated margins increased \$114 million, or 14%, in 1996. Company-operated margins accounted for 80% of the operating income increase in 1996 and 53% in 1995. Company-operated margin growth accounted for a larger portion of the 1996 operating income increase than in 1995, due to a decline in 1996 general, administrative and selling expense growth, the \$16 million SFAS 121 charge and a decline in other operating income growth in 1996. The seven largest markets contributed about 74% to Company-operated margins outside the U.S. and accounted for 59% of the increase over 1995.

Company-operated margins as a percent of sales declined slightly in 1996 to 19.8%, compared with 20.2% in 1995 and 20.5% in 1994. The declines in the 1996 and 1995 margins partly resulted from strategic decisions in many markets to use incremental margin dollars gained through sales growth and cost efficiencies to deliver value to customers. This helped drive market share and customer satisfaction in the major markets in 1996.



### Company-operated restaurant margins outside the U.S.

as a percent of Company-operated sales

### Franchised restaurant margins outside the U.S.

as a percent of applicable revenues

Franchised margins grew \$94 million, or 10%, in 1996, primarily due to expansion. Franchised margins as a percent of applicable revenues were 81.8% in 1996, compared with 82.1% in both 1995 and 1994.

The Company believes it can maintain or improve both Company-operated and franchised margins as a percent of applicable revenues in 1997, by continuing to increase sales and revenues while lowering average operating and development costs.

The 1996 and 1995 increases in general, administrative and selling expenses were caused principally by additional employee costs to fund accelerated expansion and continued investment in developing markets.

Other operating income—composed of transactions related to franchising and the foodservice business—was relatively flat in 1996, compared with 1995. Strong 1996 operating results from affiliates, principally Japan, were offset by the weaker Japanese Yen. Also, gains on sales of restaurant businesses were higher in 1996 compared with 1995. The \$16 million SFAS 121 charge in

1996 reduced the other operating income increase compared with 1995. In 1995, other operating income increased primarily due to higher income from affiliates.

If exchange rates had remained at 1995 levels, results would have been as follows:

(Dollars in billions)	As reported		As adjusted	
	1996	1995	1996	1995
Sales outside the U.S.	\$15.4 10%	\$14.0 27%	\$16.1 15%	\$13.2 19%
Operating income outside the U.S.	1.5 10	1.4 30	1.6 13	1.3 22

In 1996, the Europe/Africa/Middle East/India segment accounted for 60% of revenues and 63% of operating income outside the U.S. The growth in revenues and operating income was \$405 and \$111 million, respectively, in 1996, compared with growth of \$650 and \$195 million, respectively, in 1995. Weaker currencies partly offset this region's operating income increase over 1995 by 3%, or \$29 million, compared with 1995, when stronger currencies helped operating income growth by 11%, or \$77 million. The decline from 1995 was also due to soft economies in France and Germany. This was partly offset by strong operating results in England and a slight benefit due to Russia's ownership change from an affiliate to a majority-owned subsidiary in March 1996. England, France and Germany accounted for 79% of this segment's operating income in 1996, compared with 83% in 1995.

Asia/Pacific revenues grew \$262 and \$280 million in 1996 and 1995, respectively, and operating income increased \$48 and

\$76 million, respectively, in the same two years. Weaker currencies partly offset this region's operating income increase over 1995 by 2%, or \$5 million, compared with 1995, when stronger currencies helped operating income growth by 5%, or \$12 million. Despite strong operating results from our Asian affiliates, 1996 operating income growth was also adversely affected by nonrecurring income recognized in 1995. Australia, Hong Kong, Japan and Taiwan contributed 84% of this segment's operating income, compared with 86% in 1995.

Excluding the impact of the weaker Yen, Japan had significant operating income growth in 1996. Australia and Hong Kong also experienced strong local currency operating income growth in 1996, primarily because of higher sales at existing restaurants generated by aggressive value campaigns and accelerated expansion programs.

Latin American revenues grew \$89 million in 1996 and \$223 million in 1995, while operating income decreased \$19 million in 1996 and increased \$57 million in 1995. The 1996 operating income decrease was primarily due to the \$16 million SFAS 121 charge for Mexico. Mexico's operating results were also negatively affected by its weakened economy. Brazil's operating income growth slowed as the market faced tough comparisons in the first half of 1996 due to tremendous sales and operating income growth in 1995. Despite this, Brazil produced strong sales and operating income increases in 1996, primarily due to expanding its restaurant base by about 39% in 1996 and 25% in 1995.

Canadian revenues increased \$20 million in 1996 and

Advertisement from Japan. "How Do We Keep Our Lettuce So Fresh?"



毎日レタスが新鮮なのは、  
実はわさびの効き目です。

と言っても、レタスにわさびを塗っているわけではないし、  
もちろん辛くありません。  
レタスを保存するビニール袋に、わさびのエキスを練り込んであるのです。  
わさびには抗菌効果があって、フレッシュさを長持ちさせることができます。  
昔から、お寿司やお刺身に使われているのは、そういう理由もあるのですね。  
この袋なら、畑からお店までとれたての鮮度を逃しません。  
さあ、今日もレタスは新鮮です。  
どうぞおいしく召し上がれ。

きちんと作るもの  
-----  
バリューです。



\$2 million in 1995, while operating income increased \$4 million in 1996 and decreased \$2 million in 1995. The 1996 operating income growth was primarily due to new restaurant growth of 10% and a decrease in general, administrative and selling expenses. This was partly offset by a sales decline at existing restaurants due to the slow economy.

### Assets and capital expenditures

Assets outside the U.S. rose \$1.4 billion, or 17%, in 1996 due to expansion, partly offset by weaker foreign currencies. In 1996, 59% of these assets were located in our six largest majority-owned markets—Australia, Brazil, Canada, England, France and Germany—compared with 61% in 1995.

(In millions)	1996	1995	1994	1993	1992
New restaurants	<b>\$1,273</b>	\$ 941	\$ 723	\$ 609	\$ 603
Existing restaurants	<b>153</b>	142	87	94	91
Other properties	<b>81</b>	55	34	55	47
Capital expenditures outside the U.S.	<b>\$1,507</b>	\$1,138	\$ 844	\$ 758	\$ 741
Assets outside the U.S.	<b>\$9,560</b>	\$8,206	\$6,909	\$5,650	\$5,271

In the past five years, nearly \$5 billion has been invested outside the U.S. Capital expenditures outside the U.S. rose \$369 million, or 32%, in 1996, reflecting rapid expansion in all geographic segments. In 1996, approximately 57% of capital expenditures outside the U.S. were invested in the six largest majority-owned markets, compared with 60% in 1995.

Average development costs in the six largest majority-owned markets were slightly more than one and a half times the U.S. average in 1996. These investments generally accommodate higher sales volumes than in the U.S. While there is a range of costs and average sales levels among markets, generally, average development costs have continued to decline. For example, in Europe, average development costs for the three largest markets declined 13% from 1995 to nearly double the U.S. average. Costs are declining because of construction and design efficiencies, standardization, global sourcing and a shift to smaller restaurants in some markets.

Expenditures for existing restaurants included dining room remodels to achieve increased levels of customer satisfaction and technology upgrades to improve service and food taste. The majority of these expenditures were in Europe, Australia and Canada.

Various laws and regulations make property acquisition and ownership difficult in certain markets. Property is purchased when legally and economically feasible; otherwise, long-term leases are used. In addition, certain markets have laws and customs that offer stronger tenancy rights than are available in the U.S. The Company owned 36% of sites outside the U.S. at year-end 1996, compared with 39% in 1995. Including affiliates, real estate ownership was 29% and 31% at year-end 1996 and 1995, respectively.

Capital expenditures made by affiliates—which were not included in consolidated amounts—were approximately \$410 million in 1996, compared with \$258 million in 1995. The 1996 increase was primarily used to fund rapid expansion in Japan, Argentina, Sweden, the Philippines and Singapore.

## Financial position



**Cash provided by operations exceeded capital expenditures for the sixth consecutive year and is expected to cover substantially all capital expenditures over the next several years.**

### Total assets and capital expenditures

Total assets grew approximately \$2 billion, or 13%, in 1996. Net property and equipment represented 83% of total assets and rose \$1.5 billion. Capital expenditures increased \$349 million, or 17%, in 1996, reflecting increased expansion and reinvestment in existing restaurants, partly offset by weaker foreign currencies.

### Cash provided by operations

The Company believes that cash-flow measures are meaningful indicators of growth and financial strength. Cash provided by operations has grown steadily over the past five years and increased \$165 million, or 7%, in 1996 and \$370 million, or 19%, in 1995. Cash provided by operations, along with other sources of cash such as borrowings, was used principally for capital expenditures, debt repayments, share repurchase and dividends. Cash provided by operations exceeded capital expenditures in 1996 for the sixth consecutive year, and is expected to cover substantially all capital expenditures over the next several years.

While cash generated is more than cash required, the Company also has the ability to meet short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, the current ratio of .52 at year-end 1996 has been purposefully maintained at a relatively low level.



### Cash flow and capital expenditures

in billions of dollars

● Cash provided by operations  
● Capital expenditures on a cash basis

(Dollars in millions)	1996	1995	1994	1993	1992
Cash provided by operations	<b>\$2,461</b>	\$2,296	\$1,926	\$1,680	\$1,426
Cash provided by operations less capital expenditures	<b>\$ 86</b>	\$ 233	\$ 388	\$ 363	\$ 339
Cash provided by operations as a percent of capital expenditures	<b>104</b>	111	125	128	131
Cash provided by operations as a percent of average total debt	<b>48</b>	49	48	44	33

### Financings

The Company strives to minimize interest expense and the impact of fluctuating foreign currencies while maintaining its capacity to fund increased growth. To do that, the Company generally finances long-term assets with long-term debt in the currencies in which the assets are denominated, while taking advantage of changing foreign currencies and interest rates when appropriate.

The Company has used major capital markets as well as a variety of techniques to meet its financing requirements and reduce interest expense over the years. For example, currency exchange agreements in conjunction with borrowings help obtain desired currencies at attractive rates and maturities. Interest-rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. Foreign currency debt has been used to lessen the impact of fluctuating foreign currencies on net income and shareholders' equity by designating these borrowings as hedges of intercompany financings or the Company's long-term investments in its foreign subsidiaries and affiliates. Total foreign-denominated debt, including the effects of currency exchange agreements, was \$4.9 and \$4.3 billion at year-end 1996 and 1995, respectively.

(As a percent)	1996	1995	1994	1993	1992
Fixed-rate debt as a percent of total debt	68%	67%	64%	77%	75%
Weighted-average annual interest rate	7.1	7.9	8.4	9.1	9.3
Foreign currency-denominated debt as a percent of total debt	90	89	92	86	72
Total debt as a percent of total capitalization (total debt and total shareholders' equity)	39	38	39	37	40

The Company manages its debt portfolio in response to changes in interest rates and foreign currencies by periodically retiring, redeeming and repurchasing debt; terminating exchange agreements; and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue financial instruments for trading purposes. All exchange agreements are over-the-counter instruments.

To minimize the effect of fluctuating foreign currencies on reported results, the Company actively hedges selected currencies, primarily to minimize the cash exposure of foreign currency royalty and other payments received in the U.S. In addition, McDonald's restaurants purchase goods and services primarily in local currencies resulting in natural hedges, and the Company typically finances in local currencies, creating economic hedges. The Company's exposure is diversified among a broad basket of currencies. At year-end 1996, assets in hyperinflationary markets were principally financed in U.S. Dollars. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) were as follows:

(In millions of U.S. Dollars)	December 31, 1996	1995
British Pounds Sterling	\$394	\$356
Canadian Dollars	393	361
Australian Dollars	309	240
French Francs	179	198
Hong Kong Dollars	112	115
Austrian Schillings	88	106
Belgian Francs	71	53

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990 and currently rates it AA+. These strong ratings are important to the Company because of our global development plans. The Company has not experienced, nor does it expect to experience, difficulty in obtaining financing or in refinancing existing debt. At year-end 1996, the Company and its subsidiaries had \$1.2 billion available under line of credit agree-

ments and \$1.5 billion under shelf registrations for future debt issuance.

### Total shareholders' equity

Total shareholders' equity rose \$857 million, or 11%, in 1996, representing 50% of total assets at year-end. Weaker foreign currencies decreased shareholders' equity by \$88 million in 1996.

One way to enhance common shareholder value is by using excess cash flow and debt capacity to repurchase shares. The Company has repurchased \$3.2 billion of its common stock, representing 142 million shares, over the past 10 years while maintaining a strong equity base for future expansion. At year-end 1996, the market value of shares recorded as common stock in treasury was \$6.2 billion, compared with a cost of \$3.0 billion.

In January 1996, the Company announced plans to repurchase \$2.0 billion of its common stock by year-end 1998. In 1996, about 13 million shares were repurchased for \$605 million (\$206 million of which completed our \$1.0 billion three-year common share repurchase program announced in January 1994). The Company repurchased approximately \$321 million of its common stock in 1995.

### Returns

Operating income is used to compute return on average assets, while net income less preferred stock dividends (net of tax) is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

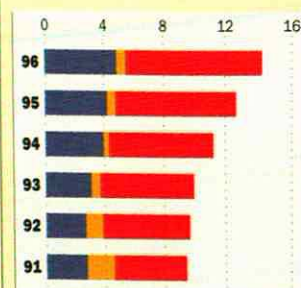
(As a percent)	1996	1995	1994	1993	1992
Return on average assets	16.7%*	17.9%	17.6%	17.0%	16.4%
Return on average common equity	19.5	19.9	19.4	19.0	18.2

\*Excluded the \$72 million special charge.

Return on assets declined in 1996, as the increase in assets outpaced the growth in operating income. Return on average assets was 16.3% for 1996 when the impact of the \$72 million special charge was included. Return on common equity also declined in 1996, as the increase in equity exceeded net income growth.

### Effects of changing prices-inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust prices, cost controls and substantial property holdings—many of which are at fixed costs and partly financed by debt made cheaper by inflation. In hyperinflationary markets, menu board prices are typically adjusted to keep pace, mitigating the effect on reported results.



### Total capitalization

in billions of dollars

- Foreign-denominated debt
- Total debt
- Total shareholders' equity



Von links nach rechts: Florian G., geb. 14.9.71, Christian B., geb. 28.6.71, Martin B., geb. 21.7.71, Doreen P., geb. 24.11.71, Gena P., geb. 25.11.71, Andrea S., geb. 13.7.71, Olaf S., geb. 31.8.71

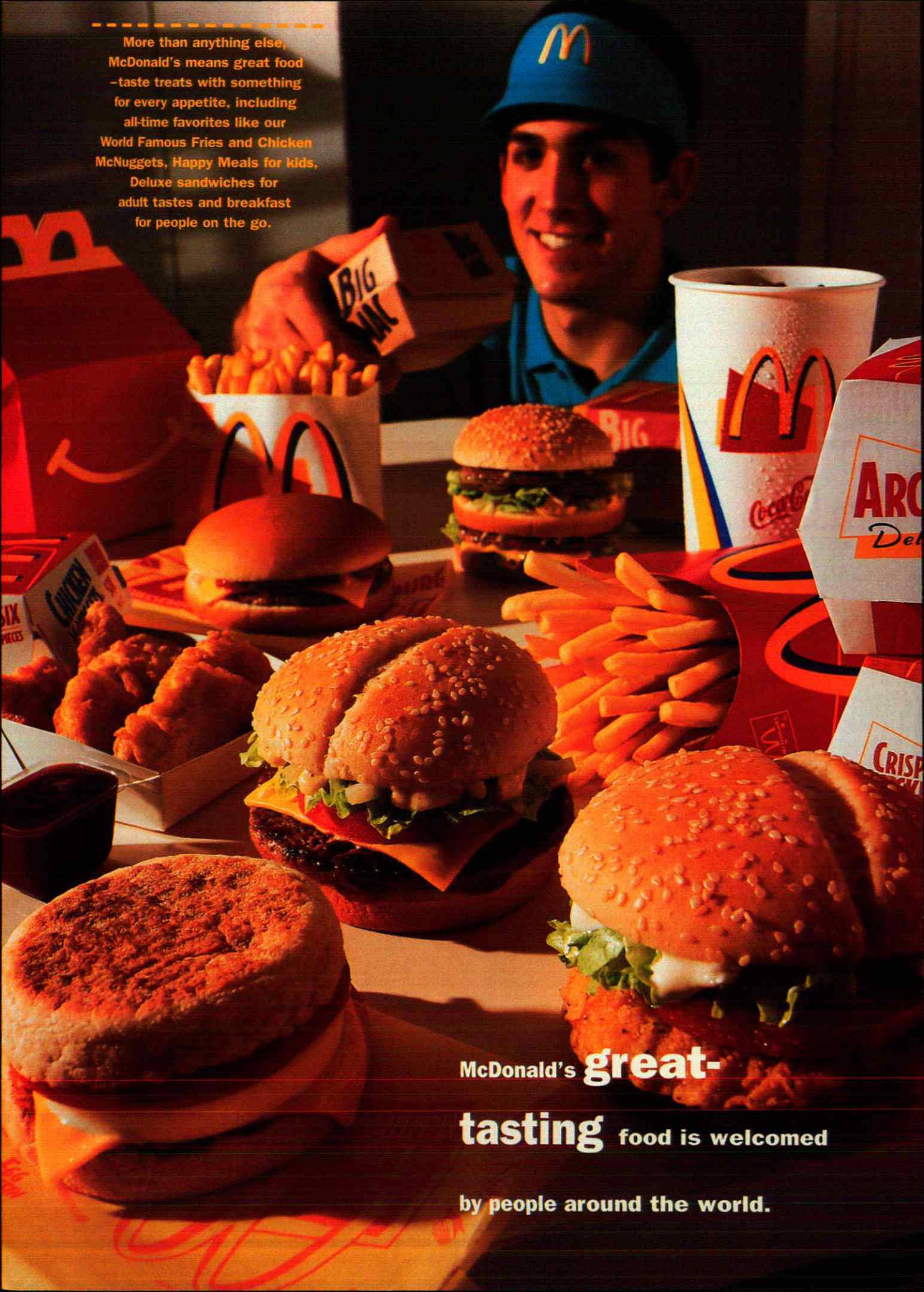
## Ohne McDonald's wären wir auch groß geworden. Aber nicht so lecker.

Diese jungen Leute sind genauso alt wie McDonald's Deutschland: 25 Jahre. 1971 eröffneten wir das erste deutsche McDonald's-Restaurant an der Martin-Luther-Straße 26 in München. Und weil bei McDonald's alles ein bißchen preisgünstiger und leckerer war, haben sie sich oft mit ihren Freunden bei uns getroffen, einen Big Mac oder einen Salat gegessen, Milch-Shakes getrunken und sich unterhalten. Das hat sich bis heute nicht geändert. Nur, daß sie jetzt ihre eigenen Kinder mitbringen. Damit auch die lecker groß werden.



*McDonald's Germany celebrates 25th anniversary. These people have grown up with McDonald's, and now they bring their own children to the restaurant.*

More than anything else,  
McDonald's means great food  
—taste treats with something  
for every appetite, including  
all-time favorites like our  
World Famous Fries and Chicken  
McNuggets, Happy Meals for kids,  
Deluxe sandwiches for  
adult tastes and breakfast  
for people on the go.



McDonald's **great-**  
**tasting** food is welcomed  
by people around the world.

# The power of our global brand

**T**he McDonald's brand is the beacon that guides our future as surely as it illuminates our present and reflects our past.

Our brand is more than a road sign, more than our Golden Arches logo, more than the Big Mac or speedy service—it is the sum of the entire McDonald's experience. Our brand lives and grows where it counts the most—in the hearts of our customers.

Pause for a moment and think about what the Golden Arches mean to you—

Maybe it's the memory of a special family visit... a friendly employee... or our World Famous Fries. Perhaps it's our clean restaurants... convenient locations... a commercial that made you smile... or our community involvement. It could even be how kids feel about Ronald McDonald... or the memory of your first paycheck from working at your local McDonald's... or how your investment in McDonald's helps you reach your goals.

Add up all your thoughts and feelings about McDonald's and multiply that by the tens of millions of people who visit us every day... and you've begun to calculate the power of our global brand. It was built by years of work and must be nurtured with daily care in each and every restaurant.

Given that care, our brand delivers a powerful competitive advantage—fostering trust and acceptance, giving us the ability to attract customers to our restaurants today and bring them back tomorrow.

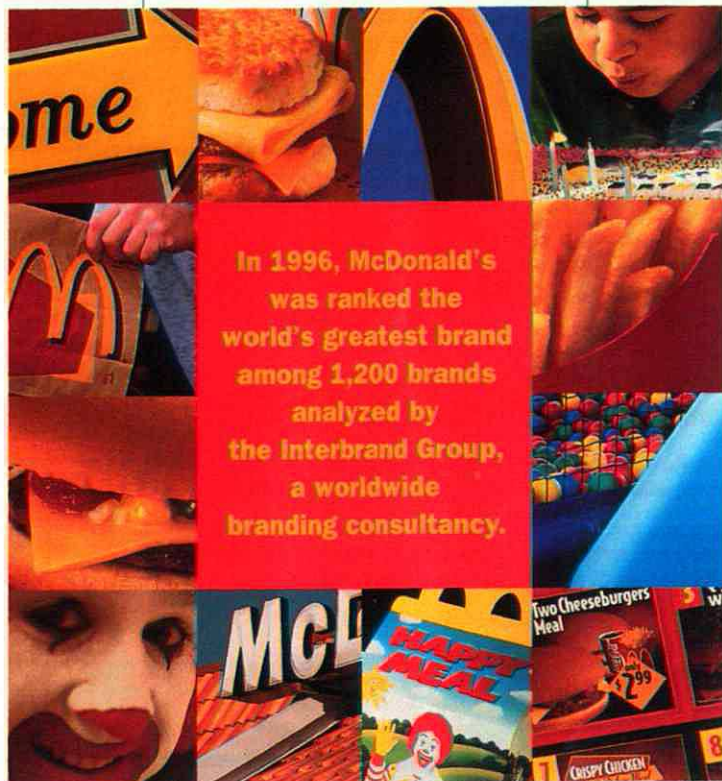
In any retail business, there's typically a direct correlation between the number of outlets a company has and its share of

the market. But McDonald's breaks that paradigm. For example, we operate fewer than three percent of the restaurants in the U.S., yet we account for almost seven percent of total U.S. restaurant sales. The

Already recognized as a favorite place among kids, we're giving adults more reasons to visit our restaurants with Deluxe sandwiches to complement our traditional menu in the U.S. These new entrees fea-

ture the Grown-Up Taste of a soft, bakery-style bun, lettuce and tomato, special seasonings and generous portions of McDonald's top-quality beef, chicken or fish.

Our great taste even extends to India, where—out of respect for the local culture—our menu does not include beef. Our restaurants, which opened in Delhi and Mumbai (Bombay) in 1996, offer several vegetarian entrees and the delicious Maharaja Mac, which is made with mutton patties and served on a sesame-seed bun.



## Passport for global expansion

McDonald's brand is a valuable passport, expanding our reach across borders to diverse cultures as we grow well

beyond the 101 countries in which we currently operate.

From South Africa to Slovenia, from China to Chile—McDonald's is welcomed because of the significant contributions we make to local economies. In many cases, we introduce new technology, improve crops, promote high-quality standards for food preparation, build distribution infrastructures and create jobs for local residents at McDonald's and our suppliers.

In fact, in countries struggling to adopt open-market economic policies, the very ability to visit a local McDonald's has come to symbolize an economic maturity and a lifestyle to which their people have aspired.

difference is attributable to the power of our brand—and we hold a “brand advantage” in all countries where we have a major presence.

The acceptance of our brand drives many global opportunities, like food that's welcomed around the world... access to new markets and attractive financing... the ability to attract and retain great people... and the power to form global alliances.

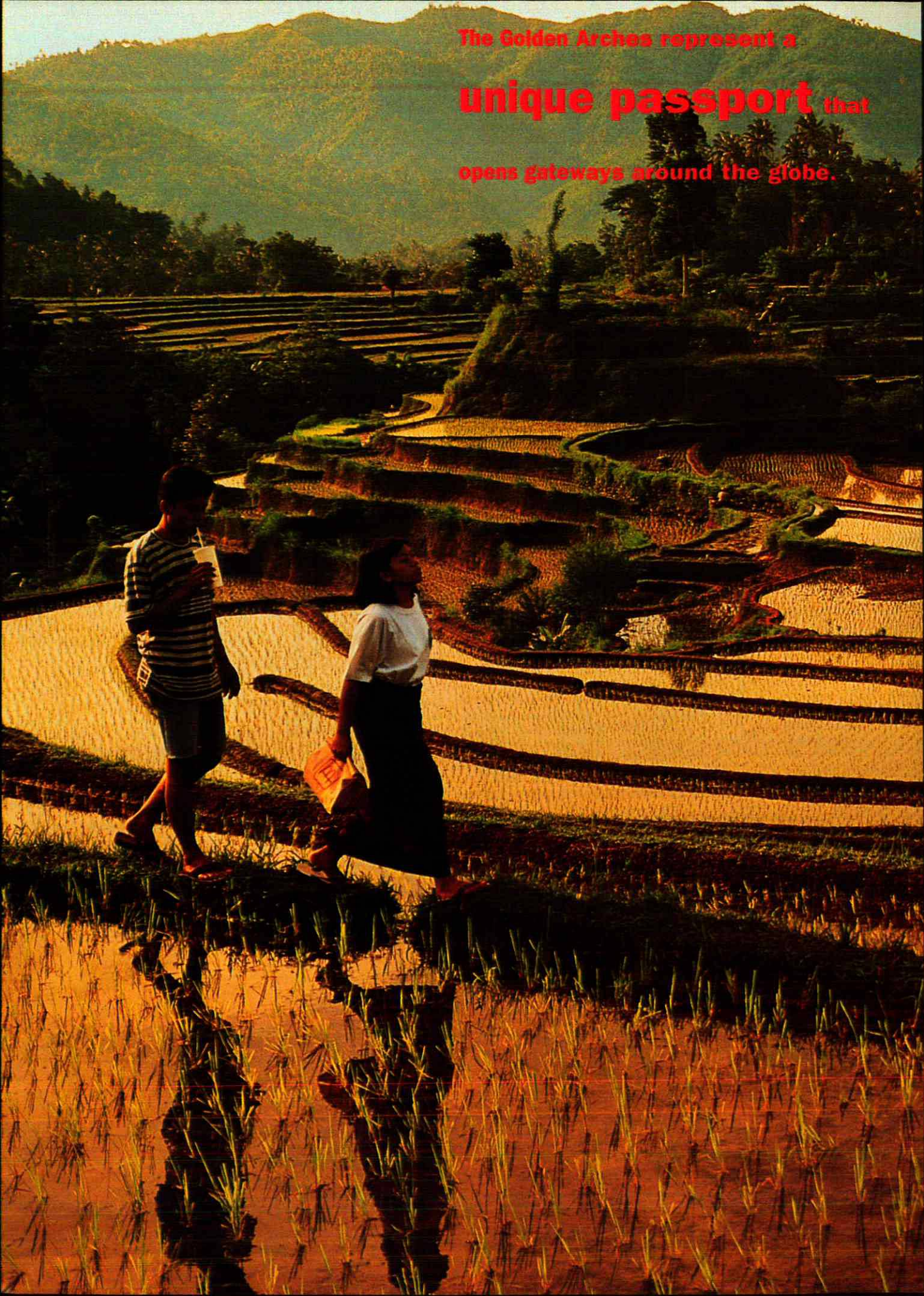
## Icon for food people love

People around the world welcome the great taste of McDonald's, led by the Big Mac, the world's best-selling branded sandwich, and our World Famous Fries.

The Golden Arches represent a

**unique passport** that

opens gateways around the globe.





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The sun never sets on McDonald's,  
whether we're serving customers  
in the world's great metropolitan  
centers or near the picturesque  
rice fields carved into the  
landscape of the Indonesian island  
of Bali. Brand McDonald's is  
at home everywhere.

The true significance of Brand McDonald's goes beyond customer recognition to immediate acceptance in new markets. It is children anxious to meet Ronald McDonald...it is intense media interest in ground-breaking ceremonies for our first restaurant in their country...and it is large opening-day crowds eager for their first taste of McDonald's.

In addition, our globally respected brand name and history of success support the Company's strong AA credit rating. These advantages allow efficient borrowing, currency swaps and other financial transactions that lower our cost of financing growth, as well as provide our franchisees with access to attractive financing.

### Magnet for great people

McDonald's brand serves as a magnet, enabling us to attract and retain highly qualified and motivated people as franchisees, international joint-venture partners, suppliers and staff.

The franchisees who own and operate McDonald's restaurants include former teachers, police officers and business executives—all successful in their own right—who were drawn by the entrepreneurial prospect of a career under the Golden Arches. The positive relationship between the Company and our franchisees led to our recent recognition as the number one franchise organization in the U.S. by *Entrepreneur* and *Franchise Times* magazines.

Our international joint-venture partners and managing directors are uniquely qualified individuals, most of whom are nationals of the countries in which they operate.

We also attract the best suppliers in the world. They invest in new supply infrastructures, maintain high product quality and control costs on behalf of McDonald's. They expect their businesses will grow as we grow.

And the attractiveness of working for McDonald's, an employer of opportunity around the world, enables us to select people with special and unique skills—from Chef Andrew Selvaggio (see *Personality Profile*, page 48)...to our local restaurant management teams.

Our ability to select and retain quality people provides continuity and helps us run more efficient restaurants. For example, a recent study of our best-run restaurants shows they share one characteristic—a solid core of managers and crew

As Disney's exclusive promotional partner in the quick-service restaurant industry, we will link our restaurants around the world to the very best Disney properties in animated and live-action theatrical and video releases and children's animated television programs. In addition, we will sponsor Dinoland at the Animal Kingdom theme park, which is scheduled to open in Disney World in 1998. We will also operate McDonald's restaurants at Disney World and Disneyland Paris.

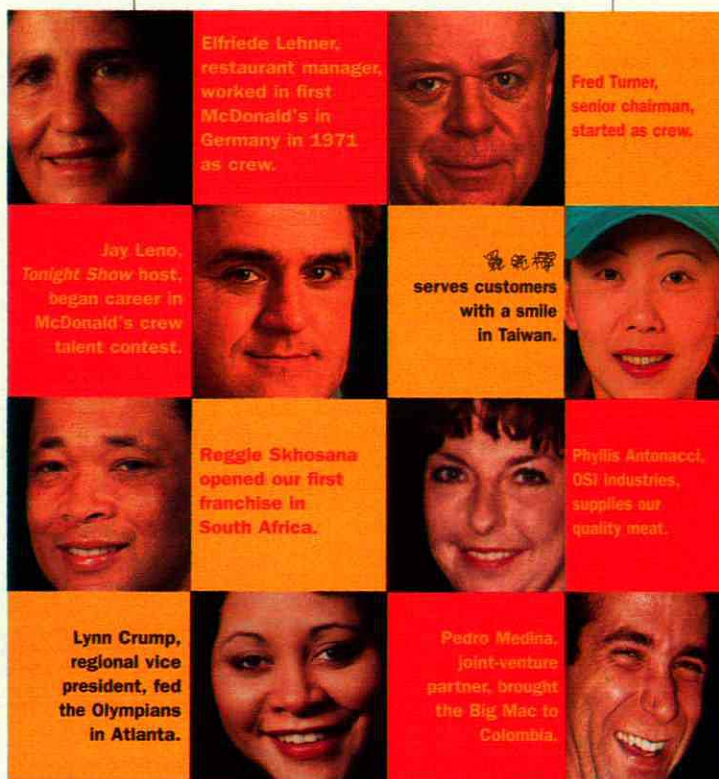
Our alliance with the Olympic Games has been strengthened by our inclusion as one of the International Olympic Committee's 10 World-wide Partners, enabling us to leverage our identification with the Olympics in every country where we do business.

Other major sports alliances include the World Cup soccer championships, to be held in France in 1998, and the National Basketball Association (NBA). Not only were our U.S. restaurants the exclusive site of the 1997 NBA All-Star balloting, but in October we will sponsor the McDonald's Championship, a tournament featuring winning basketball teams from leagues around the world, including the NBA champion.

In addition, alliances with major oil companies and large retail firms around the world give us the ability to satisfy more customers more often, while lowering investment costs and sharing expenses, through the co-development of new restaurant locations.

### Catalyst for future growth

McDonald's brand attributes are more than a compelling competitive advantage today—they power the engine that drives our growth tomorrow. As we continue to build upon the unique strengths of our global brand, our ability to continue to add value for our shareholders will be enhanced as well.



members who are long-term employees. And our top management group—50 percent of whom started their careers in our restaurants—have an average of 23 years with the Company.

### Attraction for global alliances

The quality of Brand McDonald's enables us to forge alliances with other global brands, relationships that enhance each of our businesses.

For example, this year marks the beginning of an unprecedented, 10-year global marketing alliance with The Walt Disney Company, formally joining the strengths of the world's two leading family-oriented brands.

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Ron and Ruth Blatchley,  
proud owners of eight restaurants  
in Texas, personify the multi-  
talented McDonald's family of  
franchisees. Before joining  
McDonald's 12 years ago, Ron was  
Dean of Students at Texas A&M  
University and Mayor of Bryan,  
Texas, and Ruth was co-owner of  
an independent real estate firm.  
When they wanted a new  
challenge, the McDonald's brand  
was the answer for them.

The magnetism of  
McDonald's brand draws  
the **very best**  
**people** into our  
System.



Our global brand attracts

# strong partners

into mutually beneficial alliances that  
enhance our customers' experiences.





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What better cause for celebration than the unique global alliance between family brands like The Walt Disney Company and McDonald's Corporation? When you bring together Ronald McDonald and Mickey Mouse —two of the world's favorite characters—the winners are children and families everywhere.

# Consolidated Statement of Income

(In millions, except per common share data)

Years ended December 31, 1996

1995

1994

## Revenues

Sales by Company-operated restaurants	\$ 7,570.7	\$6,863.5	\$5,792.6
Revenues from franchised and affiliated restaurants	3,115.8	2,931.0	2,528.2
<b>Total revenues</b>	<b>10,686.5</b>	<b>9,794.5</b>	<b>8,320.8</b>

## Operating costs and expenses

Company-operated restaurants			
Food and packaging	2,546.6	2,319.4	1,934.2
Payroll and other employee benefits	1,909.8	1,730.9	1,459.1
Occupancy and other operating expenses	1,706.8	1,497.4	1,251.7
	<b>6,163.2</b>	<b>5,547.7</b>	<b>4,645.0</b>
Franchised restaurants—occupancy expenses	570.1	514.9	435.5
General, administrative and selling expenses	1,366.4	1,236.3	1,083.0
Other operating (income) expense—net	(45.8)	(105.7)	(83.9)
<b>Total operating costs and expenses</b>	<b>8,053.9</b>	<b>7,193.2</b>	<b>6,079.6</b>

## Operating income

Interest expense—net of capitalized interest of \$22.2, \$22.5 and \$20.6	342.5	340.2	305.7
Nonoperating income (expense)—net	(39.1)	(92.0)	(48.9)

<b>Income before provision for income taxes</b>	<b>2,251.0</b>	<b>2,169.1</b>	<b>1,886.6</b>
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Provision for income taxes	678.4	741.8	662.2
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<b>Net income</b>	<b>\$ 1,572.6</b>	<b>\$1,427.3</b>	<b>\$1,224.4</b>
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<b>Net income per common share</b>	<b>\$ 2.21</b>	<b>\$ 1.97</b>	<b>\$ 1.68</b>
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<b>Dividends per common share</b>	<b>\$ .29</b>	<b>\$ .26</b>	<b>\$ .23</b>
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The accompanying Financial Comments are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

<i>(In millions)</i>	December 31, 1996	1995
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 329.9	\$ 334.8
Accounts receivable	467.1	377.3
Notes receivable	28.3	36.3
Inventories, at cost, not in excess of market	69.6	58.0
Prepaid expenses and other current assets	207.6	149.4
<b>Total current assets</b>	<b>1,102.5</b>	<b>955.8</b>
<b>Other assets and deferred charges</b>		
Notes receivable due after one year	85.3	98.5
Investments in and advances to affiliates	694.0	656.9
Miscellaneous	405.1	357.3
<b>Total other assets and deferred charges</b>	<b>1,184.4</b>	<b>1,112.7</b>
<b>Property and equipment</b>		
Property and equipment, at cost	19,133.9	17,137.6
Accumulated depreciation and amortization	(4,781.8)	(4,326.3)
<b>Net property and equipment</b>	<b>14,352.1</b>	<b>12,811.3</b>
<b>Intangible assets—net</b>	<b>747.0</b>	<b>534.8</b>
<b>Total assets</b>	<b>\$17,386.0</b>	<b>\$15,414.6</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Notes payable	\$ 597.8	\$ 413.0
Accounts payable	638.0	564.3
Income taxes	22.5	55.4
Other taxes	136.7	127.1
Accrued interest	121.7	117.4
Other accrued liabilities	523.1	352.5
Current maturities of long-term debt	95.5	165.2
<b>Total current liabilities</b>	<b>2,135.3</b>	<b>1,794.9</b>
<b>Long-term debt</b>	<b>4,830.1</b>	<b>4,257.8</b>
<b>Other long-term liabilities and minority interests</b>	<b>726.5</b>	<b>664.7</b>
<b>Deferred income taxes</b>	<b>975.9</b>	<b>835.9</b>
<b>Shareholders' equity</b>		
Preferred stock, no par value; authorized—165.0 million shares; issued—7.2 thousand	358.0	358.0
Common stock, 1996—\$.01 par value; 1995—no par value; authorized, 1996—3.5 billion shares; 1995—1.25 billion shares; issued—830.3 million	8.3	92.3
Additional paid-in capital	574.2	387.4
Guarantee of ESOP Notes	(193.2)	(214.2)
Retained earnings	11,173.0	9,831.3
Foreign currency translation adjustment	(175.1)	(87.1)
	<b>11,745.2</b>	<b>10,367.7</b>
Common stock in treasury, at cost; 135.7 and 130.6 million shares	(3,027.0)	(2,506.4)
<b>Total shareholders' equity</b>	<b>8,718.2</b>	<b>7,861.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$17,386.0</b>	<b>\$15,414.6</b>

The accompanying Financial Comments are an integral part of the consolidated financial statements.

# Consolidated Statement of Cash Flows

<i>(In millions)</i>	Years ended December 31, 1996	1995	1994
<b>Operating activities</b>			
Net income	\$ 1,572.6	\$ 1,427.3	\$ 1,224.4
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	742.9	709.0	628.6
Deferred income taxes	32.9	(4.2)	(5.6)
Changes in operating working capital items			
Accounts receivable increase	(77.5)	(49.5)	(51.6)
Inventories, prepaid expenses and other current assets increase	(18.7)	(20.4)	(15.0)
Accounts payable increase	44.5	52.6	105.4
Accrued interest increase (decrease)	5.0	13.0	(25.5)
Taxes and other liabilities increase	116.4	158.3	95.2
Other-net	42.9	10.1	(29.7)
<b>Cash provided by operations</b>	<b>2,461.0</b>	<b>2,296.2</b>	<b>1,926.2</b>
<b>Investing activities</b>			
Property and equipment expenditures	(2,375.3)	(2,063.7)	(1,538.6)
Purchases of restaurant businesses	(137.7)	(110.1)	(133.8)
Sales of restaurant businesses	198.8	151.6	151.5
Property sales	35.5	66.2	66.0
Notes receivable additions	(36.4)	(33.4)	(15.1)
Notes receivable reductions	59.2	31.5	56.7
Other	(314.4)	(151.1)	(92.6)
<b>Cash used for investing activities</b>	<b>(2,570.3)</b>	<b>(2,109.0)</b>	<b>(1,505.9)</b>
<b>Financing activities</b>			
Net short-term borrowings (repayments)	228.8	(272.9)	521.7
Long-term financing issuances	1,391.8	1,250.2	260.9
Long-term financing repayments	(841.3)	(532.2)	(536.9)
Treasury stock purchases	(599.9)	(314.5)	(495.6)
Common and preferred stock dividends	(232.0)	(226.5)	(215.7)
Other	157.0	63.6	39.4
<b>Cash provided by (used for) financing activities</b>	<b>104.4</b>	<b>(32.3)</b>	<b>(426.2)</b>
<b>Cash and equivalents increase (decrease)</b>	<b>(4.9)</b>	<b>154.9</b>	<b>(5.9)</b>
Cash and equivalents at beginning of year	334.8	179.9	185.8
<b>Cash and equivalents at end of year</b>	<b>\$ 329.9</b>	<b>\$ 334.8</b>	<b>\$ 179.9</b>
<b>Supplemental cash flow disclosures</b>			
Interest paid	\$ 369.0	\$ 331.0	\$ 323.9
Income taxes paid	\$ 558.1	\$ 667.6	\$ 621.8

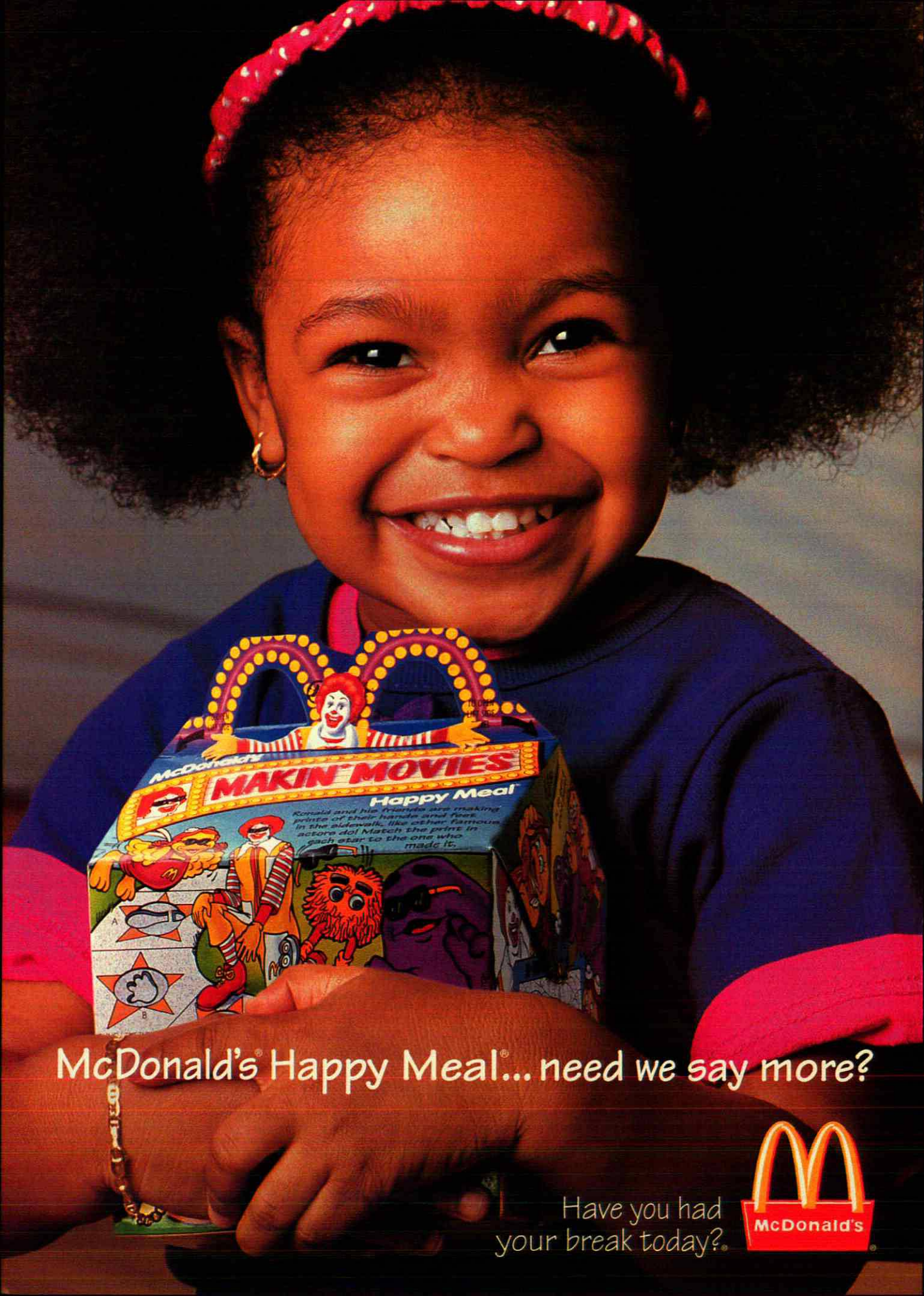
The accompanying Financial Comments are an integral part of the consolidated financial statements.

# Consolidated Statement of Shareholders' Equity

(In millions, except per share data)	Preferred stock issued		Common stock issued		Additional paid-in capital	Guarantee of ESOP Notes	Retained earnings	Foreign currency translation adjustment	Common stock in treasury	
	Shares	Amount	Shares	Amount					Shares	Amount
Balance at December 31, 1993	11.4	\$ 677.3	830.3	\$92.3	\$256.7	\$(253.6)	\$ 7,612.6	\$(192.2)	(123.0)	\$(1,919.0)
Net income							1,224.4			
Common stock cash dividends (\$ .23 per share)							(163.9)			
Preferred stock cash dividends (per share: \$1.01 for Series B, \$1.16 for Series C and \$3,860 for Series E), (net of tax benefits of \$3.7)							(47.2)			
Preferred stock conversion	(.2)	(3.1)			.5				.2	2.6
ESOP Notes payment						17.5				
Treasury stock acquisitions									(17.6)	(499.8)
Translation adjustments (including taxes of \$50.8)								77.3		
Common equity put options issuance										(54.6)
Stock option exercises and other (including tax benefits of \$20.3)					28.8	1.7			3.8	27.1
Balance at December 31, 1994	11.2	674.2	830.3	92.3	286.0	(234.4)	8,625.9	(114.9)	(136.6)	(2,443.7)
Net income							1,427.3			
Common stock cash dividends (\$ .26 per share)							(181.4)			
Preferred stock cash dividends (per share: \$1.01 for Series B, \$1.16 for Series C and \$3,860 for Series E), (net of tax benefits of \$1.6)							(40.5)			
Preferred stock conversion	(11.2)	(316.2)			25.3				8.8	144.6
ESOP Notes payment						19.0				
Treasury stock acquisitions									(8.8)	(321.0)
Translation adjustments (including taxes of \$9.0)								27.8		
Common equity put options expiration										56.2
Stock option exercises and other (including tax benefits of \$42.2)					76.1	1.2			6.0	57.5
Balance at December 31, 1995	0.0*	358.0	830.3	92.3	387.4	(214.2)	9,831.3	(87.1)	(130.6)	(2,506.4)
Net income							1,572.6			
Common stock cash dividends (\$ .29 per share)							(203.3)			
Preferred stock cash dividends (per share: \$3,860 for Series E)							(27.6)			
Conversion to \$.01 par value stock				(84.0)	84.0					
ESOP Notes payment						20.2				
Treasury stock acquisitions									(12.9)	(604.8)
Translation adjustments (including taxes of \$50.6)								(88.0)		
Stock option exercises and other (including tax benefits of \$86.4)					102.8	0.8			7.8	84.2
Balance at December 31, 1996	0.0*	\$ 358.0	830.3	\$ 8.3	\$574.2	\$(193.2)	\$11,173.0	\$(175.1)	(135.7)	\$(3,027.0)

\*At December 31, 1996 and 1995, 7.2 thousand shares were outstanding.

The accompanying Financial Comments are an integral part of the consolidated financial statements.



McDonald's® Happy Meal®... need we say more?

Have you had  
your break today?



# Financial Comments

## Summary of significant accounting policies

### Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method.

### Estimates in financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Foreign currency translation

The functional currency of substantially all operations outside the U.S. is the respective local currency, except for hyperinflationary countries where it is the U.S. Dollar.

### Advertising costs

Production costs for radio and television advertising are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and general, administrative and selling expenses were (in millions): 1996—\$503.3; 1995—\$431.0; 1994—\$385.6.

### Stock-based compensation

The Company accounts for stock options as prescribed by APB Opinion No. 25 and included pro forma information in the Stock options footnote, as permitted by Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (SFAS 123).

### Property and equipment

Property and equipment are stated at cost, with depreciation and amortization provided on the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—lesser of useful lives of assets or lease terms including option periods; and equipment—three to 12 years.

### Intangible assets

Intangible assets, primarily franchise rights reacquired from franchisees and affiliates, are amortized on the straight-line method over an average life of about 30 years.

### Accounting for the impairment of long-lived assets

In the first quarter 1996, the Company adopted Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (SFAS 121). This statement requires impairment losses be recognized for long-lived assets, whether these assets are held for disposal or continue to be used in operations, when indicators of impairment are present and the fair value of assets are estimated to be less than carrying amounts. The fair value of assets was based on projected future cash flows. The adoption of this standard in 1996 resulted in a \$16 million pre-tax charge to operating income, equivalent to 2 cents per common share, related to restaurant sites in Mexico.

### Financial instruments

The Company uses derivatives to manage risk, but not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in or intercompany loans to foreign subsidiaries and affiliates. Foreign currency gains and losses on hedges of long-term investments are recorded in shareholders' equity as foreign currency translation adjustments. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating income (expense)—net.

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Gains or losses from the early termination of interest-rate swaps are amortized as an adjustment to interest expense over the shorter of the remaining life of the swap or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial intrinsic value) to hedge anticipated foreign currency royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized as nonoperating income in the period in which the related royalty or other payment is received.

Short-term forward foreign exchange contracts are also used to mitigate exposure on foreign currency cash flows received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating income (expense)—net. Gains and losses associated with these forward contracts have not been material.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of some other item or terminated.

### Statement of cash flows

The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

### Segment and geographic information

The Company operates exclusively in the foodservice industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. Operating income includes the Company's share of operating results of affiliates. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Fees received from subsidiaries outside the U.S. were (in millions): 1996—\$419.0; 1995—\$358.4; 1994—\$268.9.

The corporate component of operating income represents corporate general, administrative and selling expenses. Corporate assets include corporate cash, investments, asset portions of financing instruments and certain intangibles.

(In millions)	1996	1995	1994
U.S.	\$ 4,590.3	\$ 4,473.9	\$ 4,155.5
Europe/Africa/Middle East/India	3,660.3	3,255.1	2,604.7
Asia/Pacific	1,272.7	1,010.8	730.7
Latin America	595.7	506.9	283.8
Canada	567.5	547.8	546.1
Total revenues	\$10,686.5	\$ 9,794.5	\$ 8,320.8
U.S.	\$ 1,144.0	\$ 1,252.4	\$ 1,216.7
Europe/Africa/Middle East/India	951.3	840.3	645.8
Asia/Pacific	357.2	309.6	233.5
Latin America	113.7	132.7	76.0
Canada	118.4	114.5	116.8
Corporate	(52.0)	(48.2)	(47.6)
Total operating income	\$ 2,632.6	\$ 2,601.3	\$ 2,241.2
U.S.	\$ 7,553.5	\$ 7,040.2	\$ 6,492.7
Europe/Africa/Middle East/India	6,011.9	5,069.2	4,257.5
Asia/Pacific	2,108.4	1,813.6	1,547.7
Latin America	900.3	812.5	616.4
Canada	539.6	510.5	487.6
Corporate	272.3	168.6	190.0
Total assets	\$17,386.0	\$15,414.6	\$13,591.9

### Other operating (income) expense-net

(In millions)	1996	1995	1994
Gains on sales of restaurant businesses	\$(85.2)	\$ (63.9)	\$(67.1)
Equity in earnings of unconsolidated affiliates	(76.8)	(96.5)	(47.0)
Net losses from property dispositions	41.1	49.2	20.0
Special charge	72.0		
Other-net	3.1	5.5	10.2
Other operating (income) expense-net	\$(45.8)	\$(105.7)	\$(83.9)

Net losses from property dispositions in 1996 included the \$16.0 million charge for restaurant sites in Mexico, upon the adoption of SFAS 121.

A special charge of \$72.0 million was recorded in 1996 related primarily to plans to strengthen the U.S. business and reduce ongoing costs by closing approximately 115 low-volume U.S. satellite restaurants, replacing certain restaurant equipment, outsourcing excess property management and implementing other cost efficiencies.

### Profit sharing program

The Company's program for U.S. employees includes profit sharing, 401(k) (McDESOP) and leveraged employee stock ownership (LESOP) features. McDESOP allows participants to make contributions which are partly matched by the Company. Profit sharing assets and contributions made by McDESOP participants can be invested in McDonald's common stock or among several other investment alternatives. Company contributions to McDESOP are invested in McDonald's common stock. Due to the conversion of all remaining preferred shares in 1995, the LESOP is now invested only in McDonald's common stock.

Executives, staff and restaurant managers participate in profit sharing contributions and shares released under the LESOP, based on participant's compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year. The LESOP contribution is based on the loan payments necessary to amortize the debt incurred to acquire the stock. Shares held by the LESOP are allocated to participants as the loan is repaid. Dividends on shares held by the LESOP are used to ser-

vice the debt, and shares are released to participants to replace the dividends on shares that have been allocated to them. LESOP costs shown in the following table were based upon the cash paid for loan payments less these dividends.

(In millions)	1996	1995	1994
Profit sharing	\$11.6	\$14.2	\$15.2
LESOP	34.2	29.9	25.4
McDESOP	14.1	11.7	9.5
U.S. program costs	\$59.9	\$55.8	\$50.1

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 1996-\$30.6; 1995-\$26.6; 1994-\$18.1.

Other postretirement benefits and postemployment benefits were immaterial.

### Income taxes

Income before provision for income taxes, classified by source of income, was as follows:

(In millions)	1996	1995	1994
U.S. and Corporate	\$ 933.9	\$1,026.2	\$1,084.9
Outside the U.S.	1,317.1	1,142.9	801.7
Income before provision for income taxes	\$2,251.0	\$2,169.1	\$1,886.6

The provision for income taxes, classified by the timing and location of payment, was as follows:

(In millions)	1996	1995	1994
U.S. federal	\$260.0	\$363.7	\$379.3
U.S. state	49.4	60.5	71.1
Outside the U.S.	336.1	321.8	217.4
Current tax provision	645.5	746.0	667.8
U.S. federal	(13.2)	(17.6)	(21.2)
U.S. state	1.6	(3.9)	(3.0)
Outside the U.S.	44.5	17.3	18.6
Deferred tax provision	32.9	(4.2)	(5.6)
Provision for income taxes	\$678.4	\$741.8	\$662.2

Net deferred tax liabilities consisted of:

(In millions)	December 31, 1996	1995
Property and equipment basis differences	\$ 986.2	\$ 898.6
Other	236.7	197.8
Total deferred tax liabilities	1,222.9	1,096.4
Deferred tax assets before valuation allowance (1)	(348.5)	(360.5)
Valuation allowance	43.2	52.7
Net deferred tax liabilities (2)	\$ 917.6	\$ 788.6

(1) Includes tax effects of loss carryforwards (in millions): 1996-\$56.6; 1995-\$56.1.

(2) Net of current tax assets (in millions): 1996-\$58.3; 1995-\$47.3.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	1996	1995	1994
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of related federal income tax benefit	1.5	1.7	2.3
Benefits and taxes related to foreign operations	(6.8)	(2.9)	(2.7)
Other-net	.4	.4	.5
Effective income tax rates	30.1%	34.2%	35.1%

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately \$1.4 billion at December 31, 1996, and consisted primarily of undistributed earnings considered permanently invested in the businesses. The tax liability, if any, on these undistributed earnings depends on circumstances existing when remittance occurs. Since the Company does not anticipate distributing these earnings in the foreseeable future, it is not practicable to determine the amount of tax liability, if any, if these earnings were not considered permanently invested.

## Property and equipment

(In millions)	December 31, 1996	1995
Land	\$ 3,566.0	\$ 3,251.5
Buildings and improvements on owned land	7,038.3	6,419.7
Buildings and improvements on leased land	5,735.5	4,986.3
Equipment, signs and seating	2,148.4	1,942.3
Other	645.7	537.8
	<b>19,133.9</b>	17,137.6
Accumulated depreciation and amortization	(4,781.8)	(4,326.3)
Net property and equipment	<b>\$14,352.1</b>	\$12,811.3

Depreciation and amortization was (in millions): 1996—\$673.4; 1995—\$619.9; 1994—\$550.5. Contractual obligations for the acquisition and construction of property totaled \$261.0 million at December 31, 1996.

## Other long-term liabilities and minority interests

(In millions)	December 31, 1996	1995
Security deposits by franchisees	\$160.8	\$155.0
Preferred stock issued by subsidiaries	453.8	400.6
Minority interests in consolidated subsidiaries	34.9	33.2
Other	77.0	75.9
Other long-term liabilities and minority interests	<b>\$726.5</b>	\$664.7

One subsidiary issued preferred stock in British Pounds Sterling as follows: £150 million of Series C, D and E at an average rate of 7.04% in 1995; £25 million of 5.42% Series B in 1994; and £50 million of 5.91% Series A in 1993. The combined series was valued at U.S. \$385.3 million at December 31, 1996. Unless redeemed at the Company's option, each series must be redeemed five years from the date of issuance. The preferred stock of another subsidiary had a dividend rate of 8.76% (adjusted annually) and was valued at U.S. \$68.5 million at December 31, 1996. This stock is redeemable at the option of the holder.

Included in other was the \$100 per share redemption value of 181,868 shares of 5% Series D Preferred Stock. This stock carries one vote per share and must be redeemed on the occurrence of specified events.

## Leasing arrangements

At December 31, 1996, the Company was lessee at 3,513 locations through ground leases (the Company leases land and owns buildings) and at 4,862 locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options with certain leases pro-

viding purchase options. For most locations, the Company is obligated for the related occupancy costs which include property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more are:

(In millions)	Restaurant	Other	Total
1997	\$ 471.3	\$ 44.5	\$ 515.8
1998	460.3	39.4	499.7
1999	439.9	32.0	471.9
2000	421.4	26.6	448.0
2001	404.7	22.9	427.6
Thereafter	3,859.1	139.1	3,998.2
Total minimum payments	<b>\$6,056.7</b>	<b>\$304.5</b>	<b>\$6,361.2</b>

Rent expense was (in millions): 1996—\$581.6; 1995—\$497.6; 1994—\$394.4. These amounts included percent rents in excess of minimum rents (in millions): 1996—\$91.4; 1995—\$73.5; 1994—\$40.3.

## Franchise arrangements

Franchise arrangements include a lease and a license and generally provide for initial fees, as well as continuing rent and service fee payments to the Company, based upon a percent of sales with minimum rent payments. Franchisees are granted the right to operate a McDonald's restaurant using the McDonald's system as well as the use of a restaurant facility generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance, maintenance and a refundable, non-interest-bearing security deposit. The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

(In millions)	1996	1995	1994
Owning sites	\$ 802.6	\$ 708.6	\$ 633.4
Leased sites	<b>548.1</b>	521.4	446.0
Minimum rents	<b>1,350.7</b>	1,230.0	1,079.4
Percent rent and service fees	<b>1,689.7</b>	1,638.4	1,411.8
Initial fees	<b>75.4</b>	62.6	37.0
Revenues from franchised and affiliated restaurants	<b>\$3,115.8</b>	\$2,931.0	\$2,528.2

Future minimum rent payments due to the Company under franchise arrangements are:

(In millions)	Owning sites	Leased sites	Total
1997	\$ 993.8	\$ 536.3	\$ 1,530.1
1998	1,005.1	541.2	1,546.3
1999	988.3	533.8	1,522.1
2000	969.2	520.8	1,490.0
2001	963.3	514.3	1,477.6
Thereafter	9,242.2	4,881.9	14,124.1
Total minimum payments	<b>\$14,161.9</b>	<b>\$7,528.3</b>	<b>\$21,690.2</b>

At December 31, 1996, net property and equipment under franchise arrangements totaled \$8.1 billion (including land of \$2.5 billion) after deducting accumulated depreciation and amortization of \$2.5 billion.

## Debt financing

### Line of credit agreements

The Company has a line of credit agreement for \$675.0 million with various banks which expires on April 19, 2001. Accordingly, \$675.0 million of notes maturing within one year have been reclassified as long-term debt. Fees are .06% per annum on the total commitment. The Company has an additional \$25.0 million line of credit agreement with various banks with a renewable term of 364 days and fees of .07% per annum on the total commitment. Both agreements remained unused at December 31, 1996. Borrowings under the agreements bear interest at one of several specified floating rates selected by the Company at the time of borrowing. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling \$454.2 million at December 31, 1996; these were principally short-term and denominated in various currencies at local market rates of interest. The weighted-average interest rate of short-term borrowings, composed of commercial paper and foreign currency bank line borrowings, was 6.4% at December 31, 1996, and 1995.

### Exchange agreements

The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements, and other interest-rate exchange agreements, expire through 2008. Such currency exchange agreements had a notional amount equivalent to U.S. \$2.6 billion at December 31, 1996, and related primarily to the exchange of French Francs, Deutsche Marks and Swiss Francs. The notional principal is the amount used to calculate interest payments which are exchanged over the life of the swap transaction and is equal to the amount of foreign currency or U.S. Dollar principal exchanged at maturity. The interest-rate exchange agreements (primarily U.S. Dollars, British Pounds Sterling and Deutsche Marks) had a notional amount equivalent to U.S. \$1.9 billion at December 31, 1996. The net value of each exchange agreement based on its current spot rate was classified as an asset or liability, and any related interest income was netted against interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any individual counterparty and has entered into master agreements that contain netting arrangements.

At December 31, 1996, the Company had purchased foreign currency options outstanding (primarily British Pounds Sterling, Deutsche Marks and Swiss Francs) with a notional amount equivalent to U.S. \$180.9 million. The unamortized premium related to these currency options was \$2.8 million and there were no related deferred gains recorded as of year end. Short-term forward foreign exchange contracts outstanding at December 31, 1996 (primarily Deutsche Marks, Japanese Yen and Swiss Francs) had a U.S. Dollar equivalent of \$33.7 million.

### Guarantees

The Company has guaranteed and included in total debt at December 31, 1996, \$133.0 million of 7.4% ESOP Notes Series A and \$70.6 million of 7.1% ESOP Notes Series B issued by the

Leveraged Employee Stock Ownership Plan with payments through 2004 and 2006, respectively. The Company has agreed to repurchase the notes upon the occurrence of certain events. The Company also has guaranteed certain affiliate loans totaling \$138.6 million at December 31, 1996.

### Fair values

(In millions)	December 31, 1996	
	Carrying amount	Fair value
<b>Liabilities</b>		
Debt	\$4,804.1	\$4,930.7
Notes payable	597.8	597.8
Foreign currency exchange agreements (1)	121.5	198.9
Interest-rate exchange agreements (2)		9.0
<b>Total liabilities</b>	<b>5,523.4</b>	<b>5,736.4</b>
<b>Assets</b>		
Foreign currency exchange agreements (1)	45.1	4.1
<b>Net debt</b>	<b>\$5,478.3</b>	<b>\$5,732.3</b>
Purchased foreign currency options	\$ 2.8	\$ 7.1

(1) Combined notional amount equivalent to U.S. \$2.6 billion.

(2) Notional amount equivalent to U.S. \$1.9 billion.

The carrying amounts for cash and equivalents and notes receivable approximated fair value. No fair value was provided for non-interest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise arrangements.

Short-term forward foreign exchange contracts were recorded at their fair value of \$33.7 million at December 31, 1996. The fair value of the debt and notes payable obligations (excluding capital leases), the currency and interest-rate exchange agreements and the foreign currency options was estimated using quoted market prices, various pricing models or discounted cash flow analyses. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of total assets was higher than their carrying value at December 31, 1996.

### Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the gross effects of currency and interest-rate exchange agreements.

## FINANCIAL REVIEW

(In millions of U.S. Dollars)	Maturity dates	Interest rates (1) December 31		Amounts outstanding December 31		Aggregate maturities by currency for 1996 balances				
		1996	1995	1996	1995	1997	1998	1999	2000	2001 Thereafter
Fixed—original issue (2)		<b>7.2%</b>	7.5%	<b>\$ 2,610.8</b>	\$ 2,172.6					
Fixed—converted via exchange agreements (3)		<b>6.0</b>	5.9	<b>(2,249.6)</b>	(1,844.2)					
Floating		<b>5.6</b>	5.5	<b>206.4</b>	216.5					
Total U.S. Dollars	1997-2036			<b>567.6</b>	544.9	\$ 14.8	\$(319.7)	\$(321.9)	\$288.8	\$(301.6) \$1,207.2
Fixed		<b>5.7</b>	6.0	<b>737.6</b>	552.7					
Floating		<b>3.8</b>	4.4	<b>390.2</b>	376.6					
Total Deutsche Marks	1997-2007			<b>1,127.8</b>	929.3	295.8	268.6	211.1	139.2	147.9 65.2
Fixed		<b>7.2</b>	7.8	<b>940.5</b>	727.3					
Floating		<b>3.9</b>	5.8	<b>136.4</b>	177.4					
Total French Francs	1997-2006			<b>1,076.9</b>	904.7	102.2	156.8	177.9	39.2	98.3 502.5
Fixed		<b>9.9</b>	9.3	<b>304.4</b>	382.3					
Floating		<b>6.2</b>	6.2	<b>256.4</b>	121.1					
Total British Pounds Sterling	1997-2003			<b>560.8</b>	503.4	170.8	23.2		94.2	77.1 195.5
Fixed		<b>4.5</b>	4.4	<b>387.2</b>	409.5					
Floating		<b>0.8</b>	0.6	<b>51.8</b>	130.5					
Total Japanese Yen	1997-2023			<b>439.0</b>	540.0	86.3		51.8	43.2	43.2 214.5
Fixed		<b>9.4</b>	11.0	<b>141.7</b>	113.8					
Floating		<b>6.7</b>	7.6	<b>94.0</b>	100.5					
Total Australian Dollars	1997-2000			<b>235.7</b>	214.3	159.1	70.8	1.7	4.1	
Fixed		<b>5.3</b>	6.2	<b>185.1</b>	136.9					
Floating		<b>3.2</b>	4.2	<b>36.4</b>	32.2					
Total Netherland Guilders	1997-2001			<b>221.5</b>	169.1	13.4	100.5	25.7	28.7	53.2
Fixed		<b>8.7</b>		<b>99.8</b>						
Floating		<b>8.4</b>	12.4	<b>47.8</b>	3.8					
Total Italian Lira	1997-2003			<b>147.6</b>	3.8	47.7				50.1 49.8
Fixed		<b>8.3</b>	8.5	<b>61.8</b>	43.9					
Floating		<b>6.1</b>	7.9	<b>85.7</b>	65.3					
Total New Taiwan Dollars	1997-2003			<b>147.5</b>	109.2	85.7		3.6	14.5	7.3 36.4
Fixed		<b>9.4</b>	9.0	<b>56.5</b>	130.3					
Floating		<b>3.1</b>	6.0	<b>73.0</b>	22.0					
Total Canadian Dollars	1997-2021			<b>129.5</b>	152.3	55.0	0.2	73.2	0.2	0.1 0.8
Fixed		<b>4.6</b>	4.7	<b>68.7</b>	81.1					
Floating		<b>1.7</b>	2.3	<b>60.1</b>	30.4					
Total Swiss Francs	1997-2000			<b>128.8</b>	111.5	7.8	29.9	26.1	65.0	
Fixed		<b>9.0</b>	9.5	<b>101.4</b>	63.5					
Floating		<b>7.2</b>	11.3	<b>22.2</b>	39.1					
Total Spanish Pesetas	1998-2003			<b>123.6</b>	102.6		81.9			41.7
Fixed		<b>8.3</b>	8.7	<b>45.2</b>	77.6					
Floating		<b>6.1</b>	6.6	<b>55.9</b>	40.1					
Total Hong Kong Dollars	1997-2008			<b>101.1</b>	117.7	52.4	17.6	11.2	11.1	2.4 6.4
Fixed		<b>8.0</b>	8.4	<b>218.2</b>	161.7					
Floating		<b>10.4</b>	10.9	<b>252.7</b>	230.9					
Total other currencies (4)	1997-2016			<b>470.9</b>	392.6	276.0	33.6	78.8	12.5	56.9 13.1
Debt obligations including the net effects of currency and interest-rate exchange agreements				<b>5,478.3</b>	4,795.4	1,367.0	463.4	339.2	740.7	234.9 2,333.1
Obligations supported by long-term line of credit agreement						(675.0)				675.0
Net asset positions of currency exchange agreements (included in miscellaneous other assets)				<b>45.1</b>	40.6	1.3	5.9	21.8	6.4	7.3 2.4
Total debt obligations				<b>\$ 5,523.4</b>	\$ 4,836.0	\$ 693.3	\$ 469.3	\$ 361.0	\$ 747.1	\$ 917.2 \$2,335.5

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Includes \$333.5 million of debentures with maturities in 2025 and 2036 which are subordinated to senior debt and which provide for the ability to defer interest payments up to five years under certain conditions.

(3) A portion of U.S. dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the gross effects of these and other exchange agreements.

(4) Consists of debt obligations denominated in 18 other foreign currencies.

## Stock options

At December 31, 1996, the Company had three stock-based compensation plans, two for employees and one for non-employee directors, accounted for under APB Opinion No. 25. Options to purchase common stock are granted at prices not less than the fair market value of the stock on date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, every two years, beginning a year from the date of the grant, and expiring 10 years from the grant date. At December 31, 1996, the number of shares of common stock reserved for issuance under the two employee plans was 97.3 million, including 24.6 million available for future grants.

A summary of the status of the Company's plans as of December 31, 1996, 1995 and 1994, and changes during the years ending on those dates is presented below:

Options	1996		1995		1994	
	Shares (in millions)	Weighted- average exercise price	Shares (in millions)	Weighted- average exercise price	Shares (in millions)	Weighted- average exercise price
Outstanding at beginning of year	68.1	\$23.86	62.3	\$21.02	55.1	\$18.16
Granted	15.0	49.14	13.7	33.24	13.6	29.90
Exercised	(7.8)	17.75	(6.0)	15.76	(4.1)	12.14
Forfeited	(2.6)	32.31	(1.9)	24.55	(2.3)	18.72
Outstanding at end of year	72.7	\$29.46	68.1	\$23.86	62.3	\$21.02
Options exercisable at end of year	26.7		24.4		21.4	

Options granted each year were about 2% of average common shares outstanding for 1996, 1995 and 1994, respectively, representing grants to approximately 10,300, 8,500 and 7,700 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

Pro forma net income and net income per common share in the table below were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123.

	1996	1995
Net income—pro forma (in millions)	\$1,538.3	\$1,414.0
Net income per common share—pro forma	2.16	1.95
Weighted-average fair value of options granted	16.88	13.07

For the pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. These pro forma amounts are not indicative of anticipated future disclosures because SFAS 123 does not apply to grants before 1995. Therefore, the pro forma disclosures do not include a full seven years of grants. The fair value for these options was estimated at the date of grant using an option pricing model which was designed to estimate the fair value of options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following weighted-average assumptions were used to estimate the fair value of these options.

	1996	1995
Expected dividend yield	.65%	.65%
Expected stock price volatility	19.4%	20.9%
Risk-free interest rate	6.14%	7.39%
Expected life of options (in years)	7	7

The following table shows the potential dilution of common shares outstanding from stock option exercises, assuming all options outstanding and in-the-money at year end are exercised. The calculation assumes that shares issued upon exercise are partly offset by shares purchased with proceeds from the exercise, based on the December 31 price of the Company's common stock each year.

	1996	1995	1994
Common shares outstanding at year end (in millions)	694.6	699.8	693.7
Potential dilution of common shares outstanding from option exercises (in millions)	18.4	20.4	11.4
Potential dilution as a percent of shares outstanding at year end	2.6%	2.9%	1.6%
Average option exercise price	\$17.75	\$15.76	\$12.14
Average cost of treasury stock issued for option exercises	\$ 7.65	\$ 7.16	\$ 7.05

As shown above, the average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises. This is because the Company prefunds the program through share repurchase. Thus, stock option exercises have generated additional capital, since cash received from employees has exceeded the Company's average acquisition cost of treasury stock. In addition, stock option exercises have generated \$148.9 million of tax benefits for the Company during the three years ended December 31, 1996.

Range of exercise prices	December 31, 1996			
	Options outstanding		Options exercisable	
	Number of options (in millions)	Weighted-average remaining contractual life (in years)	Number of options (in millions)	Weighted-average exercise price
\$11 to 15	10.3	2.8	8.7	\$13.70
16 to 22	14.6	5.2	8.1	18.76
24 to 36	33.2	7.4	9.8	29.21
37 to 52	14.6	9.5	0.1	39.21
\$11 to 52	72.7	6.7	26.7	\$21.04

## Capital stock

### Per common share information

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of tax benefits). In 1995, income was also reduced by \$3.9 million for the one-time effect of the Company's exchange of its Series E 7.72% Cumulative Preferred Stock for subordinated debt securities, and by an additional \$.4 million for the effect of the Company's repurchase of additional Series E preferred stock. Adjusted net income was divided by the weighted-average shares of common stock outstanding during each year (in millions): 1996—698.2; 1995—701.5; 1994—701.8. Including the effect of potentially dilutive securities, fully diluted earnings per common share amounts and increases were: 1996—\$2.16, 13%; 1995—\$1.92, 18%; 1994—\$1.63, 16%.

**Preferred stock**

In December 1992, the Company issued \$500.0 million of Series E 7.72% Cumulative Preferred Stock with a liquidation preference of \$50,000 per share. One preferred share is equal to 2,000 depositary shares. Each preferred share is entitled to one vote under certain circumstances, and is redeemable at the option of the Company beginning on December 3, 1997, at its liquidation value plus accrued dividends. In 1995, the Company completed an exchange of depositary shares equalling 2,600 shares of this preferred stock for subordinated debt securities and repurchased depositary shares equalling approximately 250 shares.

In September 1989 and April 1991, respectively, the Company sold \$200.0 million of Series B and \$100.0 million of Series C ESOP Convertible Preferred Stock to the LESOP. The LESOP financed the purchase by issuing notes guaranteed by the Company and included in long-term debt, with an offsetting reduction in shareholders' equity. Each preferred share had a liquidation preference of \$14.375 and \$16.5625, respectively, and was convertible to a minimum of .7692 and .8 common share (conversion rate), respectively. Upon termination of employment, employees were guaranteed a minimum value payable in common shares equal to the greater of the conversion rate; the fair market value of their preferred shares; or the liquidation preference plus accrued dividends, not to exceed one common share. Each preferred share was entitled to one vote and was redeemable at the option of the Company. In 1992, 8.2 million Series B shares were converted into 6.4 million common shares. During 1995, the remaining 5.2 million Series B shares and 5.8 million Series C shares were converted into 8.7 million common shares.

**Change in par value**

In May 1996, Company shareholders approved an increase in the number of authorized shares of Common Stock from

1.25 billion with no par value to 3.5 billion with \$.01 par value. The change in par value did not affect any of the existing rights of shareholders and has been recorded as an adjustment to additional paid-in capital and common stock.

**Shareholder rights plan**

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of \$62.50 (which may be adjusted under certain circumstances). The Right is transferable apart from the common stock 10 days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares, or 10 business days following the commencement or announcement of an intention to make a tender or exchange offer resulting in beneficial ownership by a person or group exceeding the threshold. The threshold may be reduced by the Board of Directors to as low as 10%.

Once the threshold has been exceeded, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of \$.0025, at any time prior to the public announcement that a person or group has exceeded the threshold. At December 31, 1996, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this plan.

**Quarterly Results (unaudited)**

(In millions, except per common share data)	Quarters ended December 31		September 30		June 30		March 31	
	1996	1995	1996	1995	1996	1995	1996	1995
<b>Systemwide sales</b>	<b>\$8,284.5</b>	\$7,734.4	<b>\$8,286.1</b>	\$7,866.6	<b>\$7,932.0</b>	\$7,641.3	<b>\$7,309.5</b>	\$6,671.6
<b>Revenues</b>								
Sales by Company-operated restaurants	\$2,005.5	\$1,812.2	\$1,965.6	\$1,811.9	\$1,885.8	\$1,727.8	\$1,713.8	\$1,511.6
Revenues from franchised and affiliated restaurants	816.1	773.3	808.2	768.2	779.3	739.8	712.2	649.7
<b>Total revenues</b>	<b>2,821.6</b>	2,585.5	<b>2,773.8</b>	2,580.1	<b>2,665.1</b>	2,467.6	<b>2,426.0</b>	2,161.3
<b>Operating costs and expenses</b>								
Company-operated restaurants	1,638.7	1,476.8	1,582.1	1,448.0	1,523.1	1,389.7	1,419.3	1,233.2
Franchised restaurants	150.0	137.2	142.2	131.7	140.7	127.8	137.2	118.2
General, administrative and selling expenses	381.0	341.4	347.9	314.1	326.3	305.4	311.2	275.4
Other operating (income) expense—net	37.9*	(16.0)	(42.4)	(35.8)	(37.1)	(41.7)	(4.2)	(12.2)
<b>Total operating costs and expenses</b>	<b>2,207.6</b>	1,939.4	<b>2,029.8</b>	1,858.0	<b>1,953.0</b>	1,781.2	<b>1,863.5</b>	1,614.6
<b>Operating income</b>	<b>614.0</b>	646.1	<b>744.0</b>	722.1	<b>712.1</b>	686.4	<b>562.5</b>	546.7
Interest expense	90.2	87.7	84.7	86.1	82.8	85.4	84.8	81.0
Nonoperating income (expense)—net	(0.3)	(18.8)	(9.4)	(26.5)	(3.8)	(16.1)	(25.6)	(30.6)
<b>Income before provision for income taxes</b>	<b>523.5</b>	539.6	<b>649.9</b>	609.5	<b>625.5</b>	584.9	<b>452.1</b>	435.1
Provision for income taxes	113.5**	172.8	209.3	209.4	205.1	205.2	150.5	154.4
<b>Net income</b>	<b>\$ 410.0</b>	\$ 366.8	<b>\$ 440.6</b>	\$ 400.1	<b>\$ 420.4</b>	\$ 379.7	<b>\$ 301.6</b>	\$ 280.7
<b>Net income per common share</b>	<b>\$ .58</b>	\$ .51	<b>\$ .62</b>	\$ .56	<b>\$ .59</b>	\$ .52	<b>\$ .42</b>	\$ .39
<b>Dividends per common share</b>	<b>\$ .07½</b>	\$ .06¾	<b>\$ .07½</b>	\$ .06¾	<b>\$ .07½</b>	\$ .06¾	<b>\$ .06¾</b>	\$ .06

\* Included the \$72 million special charge.

\*\* Included a \$50 million tax benefit as a result of certain international transactions.

## Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal control over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and such asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures which are communicated throughout the Company; careful selection, training, and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

There are inherent limitations in the effectiveness of any sys-

tem of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that at December 31, 1996, it maintained an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented below.

The Board of Directors, operating through its Audit Committee composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has independent access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION  
Oak Brook, Illinois  
January 23, 1997

## Report of Independent Auditors

The Board of Directors and Shareholders  
McDonald's Corporation  
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP  
Chicago, Illinois  
January 23, 1997

We use only three  
varieties of potatoes to  
make McDonald's fries.

This one is a Russet  
Burbank. Like all our  
potatoes, it was grown in  
the United Kingdom. And  
this is what happens to  
all our potatoes after  
they're harvested.

We clean them and  
inspect them. We wash  
them and inspect them.

We peel them and inspect

them. We wash them again and inspect them. We cut them and inspect them. In other words, we have

a really good look at them. Because you can only make really good fries when you start with



really good potatoes. And that is what McDonald's fries are: nice, whole pieces of nice, whole potatoes.

We grew it from seed.

We nurtured it.

We watered it.

For 150 days,

we looked after it.

We harvested it.

And we still don't know  
if we can use it.

**VITAL STATISTICS AND HONORS:**

Born in Chicago 1958.  
Cooked first cheeseburger 1965.  
Apprentice Chef, La Petite Cuisine 1977.  
"Top 10 Young Chefs"—*Restaurants and Institutions* 1984.  
"Best Chef of Phoenix"—*New Times Weekly* 1984.  
Head Chef, Chicago's four-star Pump Room Restaurant 1990.  
McDonald's Chef 1993.  
"Top 100 News Makers"—*Newsweek* 1996.

# The People's Chef

## Andrew Selvaggio



**Favorite childhood memory**

I have wonderful memories of making double cheeseburgers with my dad when I was seven years old. So coming to McDonald's felt like a return to my roots.

**Favorite movies**

*Babette's Feast* (loved the food), *My Dinner With Andre* (good food, a little too much talk) and *Fried Green Tomatoes* (down-home cooking for real people).

**Favorite reading**

Any cookbook—I'm always looking for ideas.

**Favorite color**

Golden brown... just like our fries.

**Recent culinary credits**

Arch Deluxe, Crispy Chicken Deluxe, Grilled Chicken Deluxe and Fish Filet Deluxe. Creating McDonald's Deluxe Line sandwiches was the most demanding challenge of my career... and the most satisfying. I get to deliver the great tastes of fine dining cuisine in products that customers can enjoy at a reasonable price.

**Most influential cooks**

Mom and Dad.

**Nickname**

Most people just call me 'Chef.' I consider that the ultimate honor.

**Recent appearances**

Starring roles in McDonald's Deluxe Line commercials. When I talk about the new dimension of flavor and taste we're giving our grown-up customers... I'm in the zone!

**Secret of the Arch Deluxe sauce**

Can't say—it's a secret... but I can tell you that we tested 52 different mustards before we found the right combination... and it was worth the effort!

**Four-star restaurant vs. McDonald's**

Both serve high-quality food. The difference is that 30 or 40 people might try the daily Chef's Special in an expensive restaurant... while McDonald's offers great tastes to millions of customers each and every day—and there's no reservation required. I love being the people's chef.

**What's new**

McDonald's Grilled Chicken Salad Deluxe and Garden Salad. More deluxe tastes for our grown-up customers.

**Highest compliment**

Mmmmmmmmmmm!



Turn Over A  
**New Leaf**

**Grilled  
Chicken  
Deluxe  
Salad**

**Garden  
Salad**





**4 Grown-Up Tastes**

